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Business Process
Enabling
South Africa



SOUTH AFRICA BUSINESS
PROCESS MANAGEMENT
KEY INDICATOR REPORT
2015

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BPESA is the national association for companies operating in the Business Process Management (BPM) sector, also referred to as BPO/BPS, and operates as a specialist investment promotion agency as well as a trade association. BPESA creates an enabling environment for its members to network, share knowledge and collectively contribute to the success of the sector.

Acknowledgements

BPESA would like to acknowledge the following contributors:

- The Rockefeller Foundation
- Dimension Data
- Mazars Auditors
- Quest
- Baker Street Properties
- Internet Solutions
- Channel Consult
- All companies that participated in the survey



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FOREWORD BY MINISTER OF TRADE AND INDUSTRY

Dr Rob Davies

I would like to present you with the 2015 BPESA Business Process Management (BPM) Report, the official report for the Business Process Services (BPS) sector in South Africa.

The BPS/BPM sector remains one of the Department of Trade and Industry's priority sectors attracting investment from English speaking source markets namely the UK, USA and Australia. Companies currently being serviced from South Africa include Amazon, Asda, Barclays, British Gas, Bloomberg, iiNet, Ipreo, Direct Line Group, Lufthansa, O2, Shell and Shop Direct. The presence of these companies highlights the quality of South Africa's offering.

The South African government's primary objectives are to support economic growth, job creation and economic transformation. The offshore sector is one of the leading sources of employment creation, most importantly providing job opportunities for our country's youth. With low capital expenditure, the sector is perfectly positioned to support job creation initiatives within the economy.

As government we have seen the potential of the sector, and as a result have given our full support in terms of the incentive scheme and the Monyetla work readiness programme. The incentive scheme helps us to compete more effectively with leading competitor destinations and has been enhanced with the ability to further incentivise complex processes in addition to non-complex functions. This further reinforces our efforts to move up the value chain and provide complex services such as drafting of derivative contracts for a leading international bank. Since 2011 the incentive scheme has contributed to the creation of over 16,000 jobs and 51 projects. This is in addition to companies who have invested in South Africa but have not accessed the incentive which brings the number of agents servicing offshore markets from South Africa to approximately 26,700.

South Africa is a world class customer service destination which has won many international customer service awards. These awards include the National Outsourcing Association (NOA) 2012 and the 2013 European Outsourcing Association (EOA), Offshoring Destination of the Year. Most recently South Africa won the 2014 NOA Professional Awards, Skills Development Project of the Year and was nominated for best offshore destination of the year for the 2015 NOA awards.

As more companies seek to leverage the South African Value Proposition in terms of realising the quality of the work delivered, the cost savings and the potential to offshore complex processes, I am confident that we will see continued growth. I further expect to see future development over the next five years coming from additional Contact Centres, Shared Service Centres and Legal Process Outsourcing operations.

To all the companies involved in this report, thank you for your role in partnering government in promoting foreign direct investment, job creation and skills transfer amongst the youth in South Africa.

Welcome to South Africa, a world class BPS destination



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

FOREWORD BY CEO OF BPESA

Tebogo Molapisane

2015 marks the first BPESA BPM report. The production of this report coincides with the relaunch of the national body.

BPM continues to go from strength to strength in South Africa, serving as a major source of employment. With relatively low entry requirements, it is one of the few industries that is accessible to a large percentage of our country's youth, while also providing a genuine career path.

As a sector, we have experienced impressive levels of job growth since 2010 which has been driven by an influx of foreign BPM business over the last five years.

With foreign investment expected to accelerate in 2016, our focus has shifted from marketing to skills development. As a location, we have always had a large pool of quality talent to choose from, but with the rapid expansion of the international market, this talent pool is now under intense pressure.

In response to this pressure, we are working alongside our partners to deal with talent related matters and our most recent initiative has seen the launch of the sector's first talent identification game. This initiative is funded by The Rockefeller Foundation.

The game is known as Team C4 and it is a project which uses game based mechanics to help identify sector ready talent. This game is available on all Android devices and it is currently being piloted in the Western Cape and will be rolled out across the country.

With all these developments at a national level, 2015 has been a very exciting year for our sector and I would like to acknowledge some key partners who have been instrumental to our recent success. Firstly, The Rockefeller Foundation, which over the last few years has provided us with the funding and support to revitalise the sector, both at an organisational and skills level.

I would also like to thank my colleagues in our offices across South Africa and our partners in local and national government. Most importantly, I would like to acknowledge the companies in the sector and their staff. The people on the ground may not always get the credit they deserve but they are in my opinion, the heart of this sector.

I am very excited about the future and I hope that this year's report provides you with access into our great sector and with relevant information to make informed business decisions.



EXECUTIVE SUMMARY

The BPM sector in South Africa is responsible for the employment of approximately 215,000 people, with an estimated 26,700 servicing international markets.

Sector Analysis: Key Findings

- The number of international jobs in South Africa increased by 23%, from 21,700 in 2014 to 26,700 in 2015. The Western Cape accounted for 87% of the growth, with the remaining 13% shared between KwaZulu-Natal and Gauteng
- Captive centres account for 64.1% of the total BPM market in South Africa, with outsourcers at 35.9%. At a provincial level, Gauteng is dominated by captive centres at 68.7%. In KwaZulu-Natal, 57% of the market is outsourced. In the Western Cape the outsourced market has experienced a 4.2% increase, from 50% in 2014 to 54.2% in 2015
- From a vertical perspective, the financial services sector accounts for 50% of the total market. Among international outsourcers, 53.3% of business is telecoms related while retail accounts for 11.9% and IT for 9.3%. In the Western Cape, telecoms contributes 42% of all international business, a 4.7% increase from 2014
- The UK market is responsible for 59.9% of offshore business in South Africa, with Australia the next largest market at 22.4%. UK investment accounts for 62% of business in the Western Cape, a 1.3% shift from 2014, followed by the US at 12.9%, up by 1.4% in 2015 and Australia at 10.8%, a 1.4% increase over the same period
- 90.9% of all international business is conducted in English, followed by German which accounts for 4.1% of interactions.

Operations: Key Findings

- Companies in South Africa use multiple service channels. 97.4% still use the telephone as the main medium to service their customers. On the back of a global shift towards omni-channel usage, social media, smartphone applications and webchat are gaining prominence as key channels of communication. The findings show that social media is used by 83.3% of companies, with smartphone applications 68.4% and webchat 58.9%

- Companies use multiple assessment tools to measure the quality of their agents' communication, with side-by-side coaching and recorded calls seen as the most effective, at 91.9%, followed by customer feedback at 86.5%
- With the global shift towards multichannel engagement, it is expected that staff will be trained to work across multiple service platforms
- Of the companies using social media, 59.5% of them use it for marketing purposes and complaint handling, 48.6% for advertising and 40.5% for customer service queries.

Human Resource: Key Findings

- The BPM sector is maturing and becoming a sustainable source of employment with 91.7% of agents permanently employed
- The average attrition rate for agents in South Africa is 30.9%. Attrition rates are highest among international outsourcers: 46.4% in Gauteng, 50.8% in the Western Cape and 54.5% in KwaZulu-Natal. Attrition among international outsourcers in the Western Cape increased by 4% in 2015 to 50.8%
- The average absenteeism rate for the sector is 7.3%. Absenteeism is highest in KwaZulu-Natal at 8.5%, followed by the Western Cape at 7.3% and Gauteng at 5.6%. In the Western Cape overall absenteeism improved by 1.4% from 8.7% in 2014 to 7.3% in 2015.
- In terms of staff transport needs, 64.7% of companies pay for their staff transport after late shifts, while 29.4% share the costs with their staff and 5.9% require their staff to pay for their own transport
- 60.7% of agents employed by international companies are between the ages of 18 and 25, and 33.9% between 26 and 30
- 47.9% of agents employed by domestic companies are between the ages of 26 to 30, and 42.6% between 18 and 25.

SOUTH AFRICAN BPM VALUE PROPOSITION

In 2012, South Africa was acknowledged as the Offshoring Destination of the Year by the NOA (UK) and in 2013 was named the EOA – Offshoring Destination of the Year. Most recently South Africa was acknowledged at the NOA Professional Awards in 2014 with the Skills Development Programme of the Year, an award it shared with global BPO Tata Consultancy.

NOA Awards: Now in its tenth year, the National Outsourcing Association Awards reward 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 Awards 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 and individuals who have demonstrated excellence in the outsourcing world are recognised.

NOA Professional Awards: The Professional Awards exist to recognise the individuals, teams and companies who do their utmost to make outsourcing work, and celebrate their talents. The shortlist spans a wide variety of functions and industry sectors, but all those included have one thing in common – a drive to achieve outstanding success through sourcing.

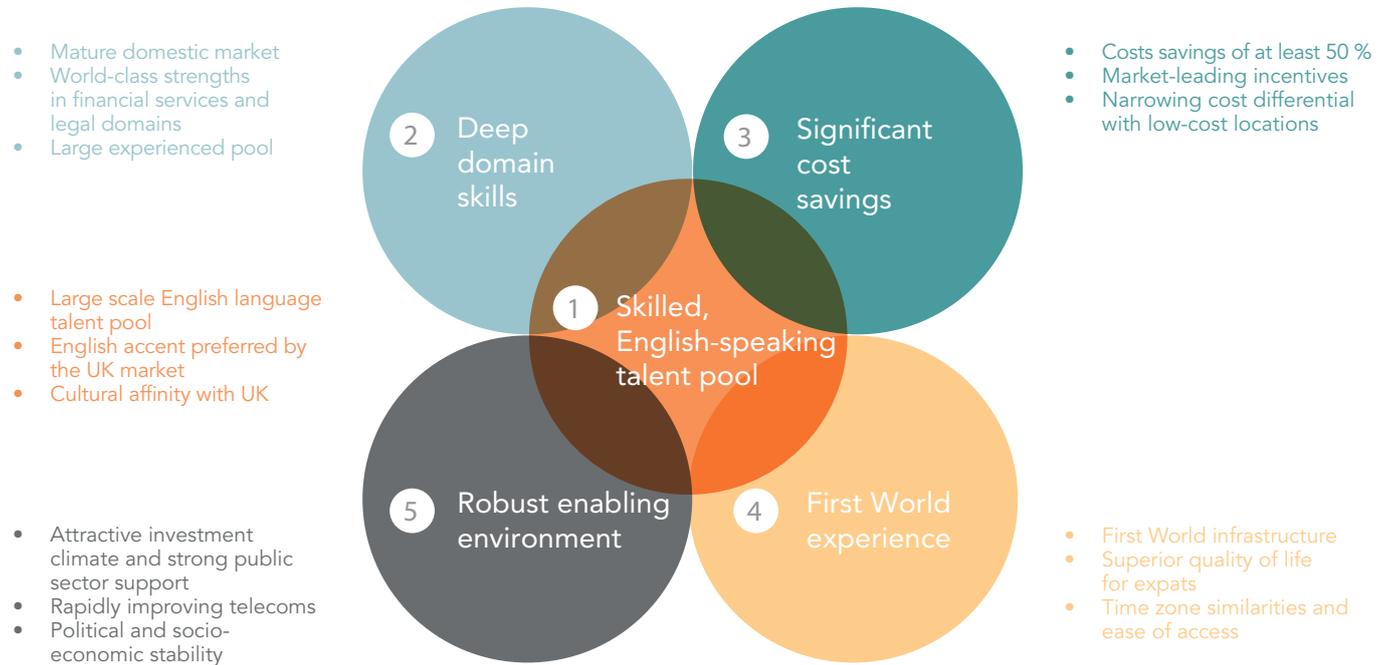


Figure 1: SA value proposition as defined by sector stakeholders - Everest Consultancy 2013

Large skilled English speaking pool / Cultural affinity

- Approximately 410,000 secondary and tertiary graduates enter the national workforce annually (Everest Group)
- South Africa is ranked third behind the Philippines and India as a destination which is able to service source locations in English
- In terms of culture, South Africa is similar to the UK, Australian and US markets, making it an ideal customer service destination for companies with English as the main language of business

Deep domain skills

- Each year, the South African tertiary education sector produces a large number of qualified actuaries (three times as many as India and the Philippines combined), chartered accountants and other specialists
- South Africa's data protection laws, products and certifications are world-class and they are similar to 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
- South Africa has been recognised as an internationally renowned Legal Process Outsourcing (LPO) destination, with strong legal skills similar to those found in Europe
- The University of Cape Town's Graduate School of Business consistently features in the Financial Times Top 100 MBA programmes.

Cost savings

- South Africa offers significant cost saving alternatives to source destinations such as the UK of at least 50% (Everest Group)
- The national incentive scheme provided by the dti helps to further lower the costs by approximately 9,000 GBP

First world experience

- South Africa's infrastructure is world class, from roads and power through to education, healthcare and entertainment, making it an easy place to conduct business
- South Africa operates on the same time zone as many European countries; as such it is well positioned to service the European market and it is also strategically located to provide 24/7 customer support services to US and Australian companies
- In addition to time zone benefits, international flights terminate at South Africa at convenient times allowing maximum productivity.

Robust enabling environment

- The South African government has identified the BPM sector as a focus area for investment and it is fully committed to the growth of this sector.
- Quality and cost of international connectivity from South Africa has improved since the arrival of a number of undersea cables. The figure below highlights the various undersea cables that have landed in South Africa since 2009 and their impact on the telecommunications capacity in 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

Figure 2: Telecommunication cables in South Africa

BPESA SKILLS OUTLOOK

Background

There is a pressing need for foundation, functional, specialist and team leader skills in the South African BPM sector. Our domestic market has approximately 188,300 employees while the international market employs an estimated 26,700 people and is growing rapidly.

In 2012, South Africa was rated by the London School of Economics (LSE) as the number two offshoring destination of choice on five investment related metrics. The LSE compared South Africa with countries such as India, the Philippines, Poland, Northern Ireland, Malaysia, Morocco, Sri Lanka, Egypt and Kenya. The same research found that South Africa's biggest challenge in capitalising on this position is a potential lack of skills.

The growth of the market, which has been driven by significant foreign investment since 2010, has put increasing pressure on the talent pool in South Africa. To respond to this challenge, BPESA formulated a comprehensive "skills strategy" in 2012. The strategy included a number of interventions including:

- The definition of generic competency profiles for seven key roles: team leaders; agents; MI analysts; quality assurors; trainers and workforce managers. These profiles are meant to provide employers and training providers with guidelines for identifying competency gaps and for designing training programmes
- The implementation of an online skills portal through which providers and suppliers of trainings can interact electronically in order to market and book training programmes
- The development of a talent identification game, Team C4, an application for smartphones which can enable young work-seekers to assess their competence against four key areas required in the BPM sector, to build a virtual curriculum vitae, and to apply for a job
- The introduction of a series of 1 day master classes aimed at building knowledge and skills for current and new practitioners in the following specialised fields: supervision / team leadership, IT support, training and workforce coaching, quality assurance; management and MI analysis. The sessions are facilitated by subject experts with extensive experience in their respective fields. The experts use content that is both relevant and useful for the set outcomes of each course. Participants are introduced to the latest knowledge and very useful tools and techniques to enhance their performance as practitioners in their respective fields
- The implementation of a suitable skills supply chain including schools, work-readiness academies, TVET colleges, private sector academies and providers as well as BPM operators and institutes of higher education and training. These



interventions will be piloted in three provinces starting late 2015 and they will include the following steps:

- Sourcing
- Work readiness training
- Generic functional training
- Role specific training
- Work place training and support
- The pilot will be used to assess performance against critical indicators of success such as speed to market, quality of learning, effectiveness of learning; cost, ease of coordination, linkage of supply and demand, capability and capacity to scale
- Access to sector practitioners who participate in a Skills Steering Committee ensures that BPESA remains aligned to the requirements, priorities and expectations of the sector and that the interventions it supports are relevant and effective
- BPESA also interacts regularly with other sector stakeholders including the South African Board for People Practices (SABPP) to ensure that the sector remains abreast of leading practices and complies with Government policies on workplace training and post school education
- Moreover, BPESA partners with Microsoft, which has developed a Youthworks Portal for young work seekers to access job opportunities, to assess their suitability for various industries and to develop their own competencies through online learning programmes.

Successes

The various skills related interventions have already yielded many successes. The generic competencies have been used by many companies to align their training programmes to role specific needs and the uptake of the skills portal has been positive and it continues to grow. The Team C4 game has been successfully piloted and is ready for public roll out while the participation in the master classes has been good and the feedback has been very positive. Furthermore, marketing content and job adverts have been uploaded onto

the Microsoft Youthworks Portal which has gone live with a soft launch. All the key stakeholders for the skills supply chain pilot have been identified and most of them have been consulted as the first step towards implementing the pilot.

Challenges

The biggest challenge facing BPESA is the lack of access to sufficient funding to support the implementation and faster roll out of the various initiatives. The second biggest challenge is to get sector role players to create adequate space in their work lives to support and adopt the various skills development initiatives at a faster rate and on a larger scale than they are currently doing.

Outlook

As the sector embraces and adopts the skills development services, platforms and offerings, we expect to see more positive skills related developments in the sector with a particular focus on skills at leadership and specialist role levels. This will have a positive impact on the international perceptions of our people's capabilities while having a more direct impact on performance, competitiveness, career development, attrition and job creation.

The key initiatives planned for the future include:

- Institutionalisation of the skills supply chain
- Enhancement of the skills portal to offer online learning to individuals and companies
- Introduction of more free content on the skills portal
- Roll out of the Team C4 skills game to schools
- Discussions around the launch of BPM parks in key regions
- Introduction of new programmes and qualifications for leadership and specialist roles in the BPM sector. These new programmes and qualifications will help people to identify career pathways and they will also add to the value proposition of this important sector.

DIMENSION DATA ANALYSIS

Resource and skill levels are being stretched like never before, and in new ways. The telephone-centric contact centre stereotype is no longer valid. In some areas, digital interactions are starting to exceed voice contacts.

Just 57% of global contact centre agents remain limited to voice only telephone support. Still standing at 62% in South Africa, it is a number that is predicted to drop further. Globally over one third of companies are blending both voice and non-voice contacts. Even more are blending resource skills across channel types.

Now in its 18th year, research from Dimension Data's 2015 Global Contact Centre Benchmarking Report signifies an industry in transformation. How does this impact the domestic South African market and where should attentions be focused to ensure differentiating services can be provided at an affordable cost?

A new age of modern contact centre has arrived. A typical engagement model now features up to eight different forms of contact methods to accommodate a more demanding, and tech savvy customer base. Contact management 4.0 may be upon us, but there are still a lot of powerful lessons to be learned from the telephone legacies being inherited.

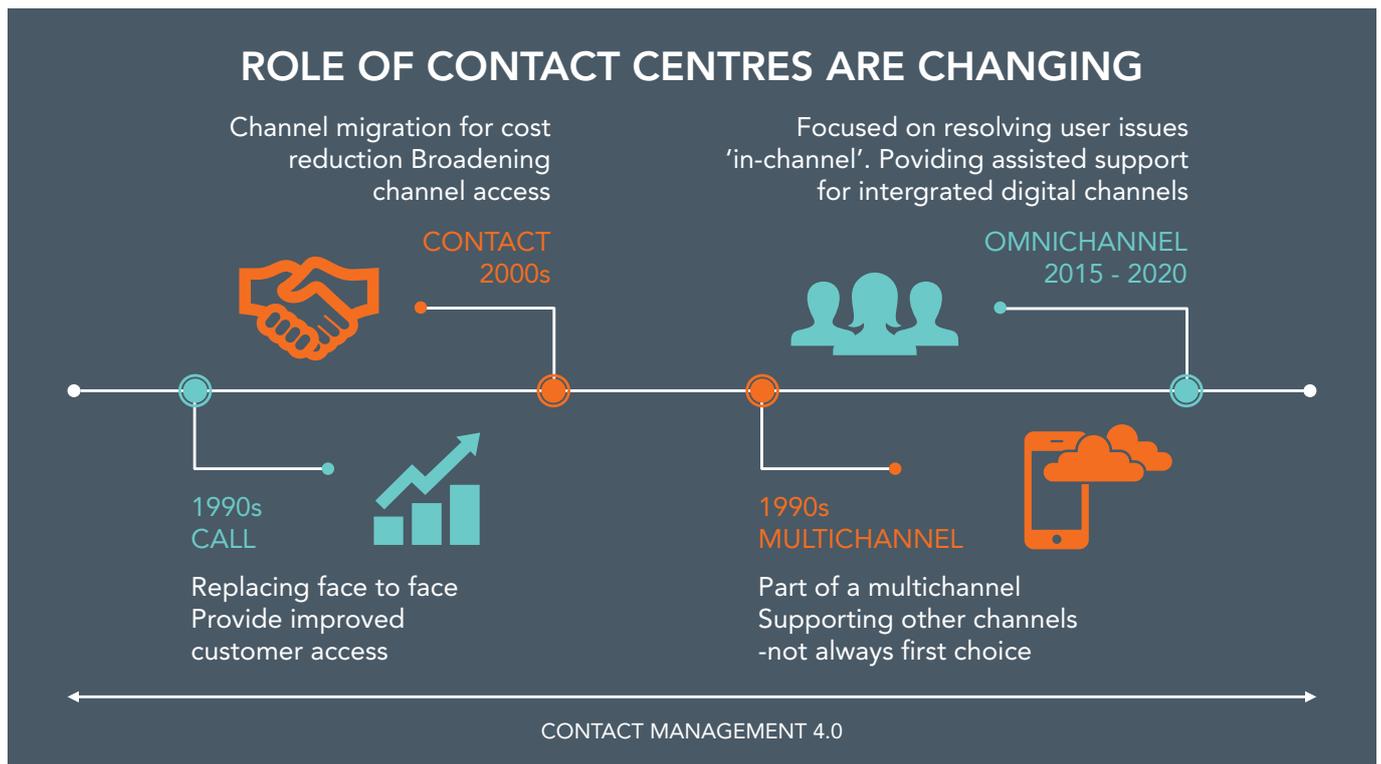


Figure 3: An industry in transformation - contact management 4.0

Slow to react

Digital media has become a core component for most contact centres. It is no longer a 'bolt-on'. The digital revolution is real, and represents the most radical change in the contact centre business in the last 30 years. It has profound implications for the way in which organisations manage their resources, and how they deploy technology to deliver and manage connected customer experiences.

However, basic capabilities, in place as standard for telephone services, are not being introduced into the digital world. It is impacting service consistency across channels, and ultimately user uptakes levels, as digital solutions continue to be managed in silos.

Unleash performance outcomes

Workforce management (WFM) has curiously been one of the most understated service enabling components for contact centre operating models that are, and will continue to be, primarily formed around people.

In fact, the misunderstandings around the correct application of workforce management systems have helped fuel widespread, if not entirely accurate, perceptions that WFM is part of a productivity centric management approach. In reality the effective design and measurement of WFM systems can deliver so much more, but first the outcomes it can influence need to be more clearly understood.

Maturing approach to performance indicators

South African organisations participating in the 2015 benchmark report highlight that 82% of board level and executive management individuals acknowledge customer experience as the most important strategic performance indicator for their business success.

Despite this, there is a lingering perception of the traditional call centre being a cost centre overhead which should have as much productivity squeezed out of it as possible. It is this same paradox that is hindered the operational application, awareness and subsequent success of workforce management techniques. WFM is not a stick or something to be feared, it is a powerful enabler, but first it may require a change in mindset and better appreciation of the chosen end outcomes it can accelerate when managed well, if it is to be optimised.

Consider that nearly two thirds (62%) of South African contact centres cite 'ease of resolution' as the most important factor affecting customer satisfaction with the organisation. In the

customers view 'wait time to access an agent is now deemed far less of a concern at 27%. The real want is to engage with a suitably qualified agent, preferably on a channel of their choosing and, most crucially, have their enquiry resolved.

The point being that WFM is not purely about boosting productivity. Rather it is about equipping your team with the tools, or rather the resources, to succeed. It is not about asking for more productivity from resources. It is about managing resources for productivity requirements.

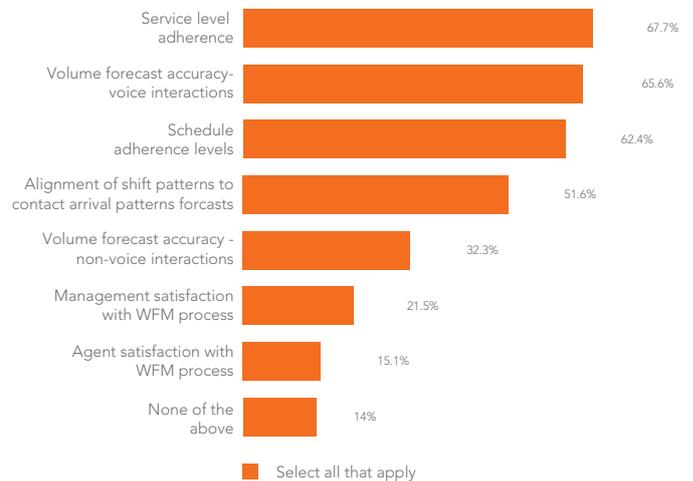
Increasing attention to digital channels

Closer scrutiny of several basic aspects of WFM reveal a significant opportunity for operations to apply the same attention to digital channels as is done to the telephone standard.

The 2015 benchmark report shows volume forecast accuracy targets to be missing in 34% of voice-based operations. That figure inexplicably doubles to 68% when we consider non-voice (digital) operations. The discrepancy between the two is unacceptable.

Additionally, just 62% of contact centre managers are tracking schedule adherence levels, with little more than half 52% taking steps to align shift patterns to contact arrival patterns. It all results in inefficiency, and not having the right people where, and when, they are needed.

Do you have targets in place to measure the effectiveness of the following workforce planning areas? (% of responses)



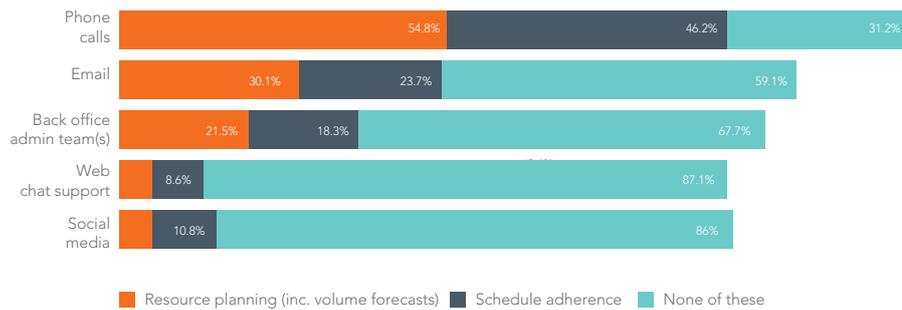
Dimension Data's 2015 Global Contact Centre Benchmarking Report.
(c) Dimension Data 2012-2015

Figure 4: Measuring effectiveness of workforce planning

Technology to support the contact centre across all of the above has been around for many years. There are numerous tools available for planning and scheduling digital interactions, but as an example 59% of organisations have nothing in place for email – one of the longer established digital service channels. The percentage of centres operating blindly increases further when we examine the back office and dramatically on relatively new digital channels such as social media or web chat, where less than 15% have any sort of automated WFM solution in place.

Which channels are covered by automated workforce management systems? (% of responses)

Year filtered on 'Current (2015)', AND Country filtered on "South Africa".



Dimension Data's 2015 Global Contact Centre Benchmarking Report.
 (c) Dimension Data 2012-2015

Figure 5: Channels covered by automated workforce management systems

This creates wastefulness in non-voice departments to a level we just don't see in telephone channels where the level of scrutiny, but also experience of management is much greater.

Without a consolidated approach, the desired performance outcomes can only be achieved by either over-pressurising the work environment or through costly overstaffing. If left unaddressed both will cause consistently high absence levels and attrition across roles.

Big data and analytics tools are predicted to be the strongest trend to shape the contact centre industry over the next five years. Understanding the intricacies of individual transactions, as well as the context of customer behaviour over multiple contacts and channels, is paramount. Adoption of this data into strong WFM methodologies will help set the organisation's frontline teams up for success, and ensure they are equipped to address customers' issues, shape their experiences and enrich the engagement, creating greater value for both parties. Can your organisation keep up? If not, customers will simply abandon channels that are not properly planned out, and follow those that do, with resolution being their fundamental and primary need.

For more information on the Dimension Data Report visit <http://www.dimensiondata.com/global/global-microsites/ccbenchmarking/pages/home.aspx>.

- Andrew McNair - Head of Solutions and Global Benchmarking at Dimension Data

IMPACT SOURCING – PROMOTING GROWTH THROUGH BPM IN SOUTH AFRICA

In 2013, The Rockefeller Foundation launched its Digital Jobs Africa (DJA) initiative to catalyse new and ICT focused sustainable employment opportunities and skills training for Africa's youth.

- DJA's approach focuses on three pathways:
 - Building favourable business environments that can lead to the creation of new digital jobs in diverse sectors, including retail and hospitality as well as the emerging e-government sector
 - Engaging the private sector to prioritise the hiring of young people for these jobs, in part through the growth of "Impact Sourcing"
 - Working with job training providers to ensure that the youth have the necessary skills to take up these opportunities.

To ensure that these efforts are sustained, The Rockefeller Foundation works in close collaboration with companies from the private sector, the government and the development community. The Foundation identifies a suitable location like South Africa, where a mature economy, supportive government and a talented workforce creates an enabling environment that is crucial to the success of its work. It selects sectors of the economy where growth trajectories provide a platform to build skills and create jobs

for African youth, skills that can help to put them on a career path that has the potential to transform their lives families and communities.

In South Africa, one of these sectors is BPM. As BPM grows, there is a dire need for work-ready skills and currently unemployed youth presents a unique opportunity for employers because it is still an untapped talent pool for companies interested in increasing their business efficiency while contributing to social upliftment in the communities.

To this end, how can outsourcing businesses in South Africa improve performance, reduce cost and support growth? The answer lies in Impact Sourcing.

Impact Sourcing is a business model that provides quality and cost efficient services but with optimised enhancements such as:

- A qualified, trained, untapped talent pool with skill sets aligned to match client needs
- Lower attrition rates and higher corresponding levels of employee engagement because people are better matched to the positions
- Opportunities to contribute to corporate social responsibility and diversity objectives like Broad-Based Black Economic Empowerment.

THE IMPACT SOURCING VALUE PROPOSITION



LOW COST

- Significant cost savings (70%+) over source locations in US/UK
- Costs comparable or lower than traditional BPOs



PROVEN, RELIABLE SERVICE DELIVERY

- Performance comparable to traditional BPOs
- Track record of meeting client SLAs/KPIs and expectations



LARGE AND UNTAPPED TALENT POOL

- Alternative to supplement traditional talent pool
- Vernacular language capabilities



STABLE AND ENGAGED WORKFORCE

- Lower attrition than traditional BPO employees
- Motivated workforce



SOCIAL IMPACT

- Direct impact (individuals, families)
- Indirect impact (Communities, support services, local economy)

" We have hired 2,500+ impact workers to date and attrition among these workers has been 20-35% lower than regular hires "

~ Leading ITO-BPO provider

" Our service has stayed the same or even improved "

~ Buyer organisation

Figure 6: Impact Sourcing Value Proposition

Why would the Rockefeller Foundation, a philanthropy which is more than 100 years old, extend a helping hand to this business? It is because Impact Sourcing is a tool for a more inclusive economy and it is a business practice which can improve the bottom line of the organisation and at the same time improve the social conditions of people across the globe.

The target for Impact Sourcing is qualified and talented youth who would otherwise have limited access to job opportunities. In South Africa, Impact Sourcing includes the hiring of "historically or previously disadvantaged individuals." By employing this population, there is significant social impact in that Impact Sourcing provides measurable increases in income levels. Data suggests that employees hired through an Impact Sourcing model benefit from income increases between 40% and 200%.

Entry-level BPM jobs are a perfect fit for this type of employee profile because they are able to engage with areas such as data entry, transaction processing, customer service and support (using voice and web chat), digitisation, marketing and sales. Experience has shown that these jobs have a lower barrier to entry but allow a young person to rapidly up skill and take up more sophisticated and higher paying tasks. These jobs also develop transferable technical and life skills that prepare employees for work in the future economy.

The growth in the BPM sector and the customary attrition rates have forced operators to look for ready to work skills and in this case, Impact Sourcing can ensure a continued cycle of demand and supply of talented youth. Operators who have chosen to test and adopt Impact Sourcing and an inclusive hiring approach have seen significant improvement in quality and performance on the one hand and reduced costs and lower attrition rates.

The following two South African examples explain the benefits of this approach:

- In South Africa, Deloitte has subscribed to Impact Sourcing for six years and it has leveraged a government incentive for employing disadvantaged youth in entry-level accounting jobs. Today they employ approximately 300 Impact Sourcing employees, approximately 10-

12% of their workforce. Some of the employees have performed very well and they have been promoted to management. By using the Impact Sourcing model, Deloitte has managed to achieve lower costs and low attrition without compromising quality. Impact Sourcing has also provided a low cost and sustainable recruiting model.

- Teleperformance, a leading global contact centre, serving clients in the US and UK, with 175,000 people across the globe partnered with Harambee Youth Employment Accelerator to source qualified talent. The company wanted to use Impact Sourcing to tap into a talent pool that could support their growth in South Africa. Through the Impact Sourcing model, Teleperformance has achieved lower attrition and high levels of employee motivation leading to high quality service to its clients. They are now looking to increase their Impact Sourcing work in South Africa and to take the model to other African countries and beyond.

Developing partnerships

For this approach to be more widely embraced and adopted as a best practice, it was necessary to partner with an organisation which has the capacity to influence stakeholders across the entire ecosystem. BPESA as the national South African BPM sector association was an obvious partner for the Foundation due to their existing established network across the key stakeholder landscape and their passion as well as focus on skills development and growth of the sector. It is through BPESA that the Rockefeller Foundation has been able to engage with many of the operators to assist in unpacking Impact Sourcing and growing the employer base. To date, there has been a positive adoption of Impact Sourcing as a business methodology and the Rockefeller Foundation is focused on growing this adoption within South Africa, the African continent and globally.

Traci Freeman – Stakeholder Development Officer South Africa, The Rockefeller Foundation

Wairimu Kagundu - Senior Program Associate, The Rockefeller Foundation

Sarah Troup - Associate Director, The Rockefeller Foundation



LEGAL PROCESS SERVICES (LPS) OVERVIEW – 2015

Overview of global LPS Market

The value of the legal services market has grown exponentially and it is estimated to be worth approximately \$2.4 billion. Originating markets, i.e. jurisdictions that outsource LPS (commonly known as LPO) are the United Kingdom, US, parts of Europe and Australia are expected to contribute significantly as an outsourcer market especially since LPO is more widely adopted there.

These jurisdictions have common challenges such as high operating cost environments functioning against severely pressurised revenue models. These challenges affect outsourcing and offshoring.

These jurisdictions enjoy the following advantages: they are typically associated with BPM and they attract high level skills at a significantly reduced cost. India is the biggest beneficiary of this type of service with approximately 1 million lawyers and 130 LPS providers. The Philippines is considered the next biggest LPS provider location with about 40 000 lawyers. Other countries competing for this more complex and valuable service are Fiji, China, Eastern Europe and South Africa.

Onshore LPS operators continue to be key competitors in this space. Many companies and law firms are already realising significant benefits by moving their operations from high cost to lower cost locations such as Manchester, Bristol as well as cities in Wales, Scotland and Northern Ireland. These so-called onshore or near-shore operations provide immediate cost relief and they are perceived as less risky than offshoring abroad where the regulatory environment may be different and where distance is perceived as an additional risk factor.

Companies that outsource to onshore providers often graduate to offshoring or a blend of onshore and offshoring as they become more confident in the services and mature in their approach to their services and LPS.

Legal Process Services (LPS) has advanced significantly in 2015 and the historical legal services have evolved from low-skilled transactional legal processes to more complex higher value legal services. Consequently, South Africa has aligned itself with other jurisdictions in providing legal process services.

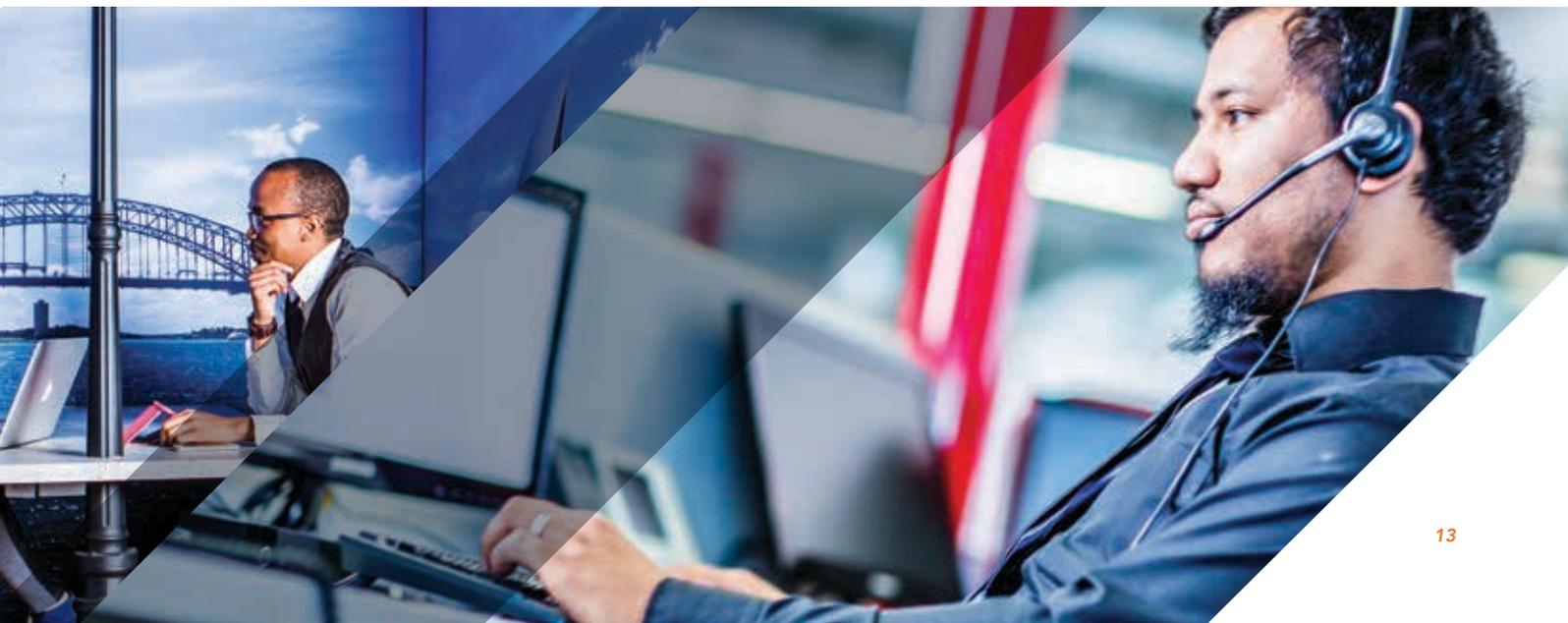
The South African LPS market

The South African legal services market is divided between a domestic and offshore market. Both markets are still driven by the same pressures and are forced to adapt operations to accommodate ever diminishing profitability. However, the concept of LPS is still new in the South African domestic market, making it difficult to accurately determine LPS activity. Similarly, it is also problematic to clearly ring-fence LPS activity and as such it is therefore useful to apply the following definition for LPS:

“The provision of affordable innovative legal deliverables enabled by technology and best-fit resources”

By applying this definition, it becomes clear that there is significant activity in the domestic legal services. This activity is often ‘hidden’ in larger managed services operations, with the result that LPS activity in South Africa is unfortunately largely perceived as ‘collections’; whereas collections is in fact only a portion of LPS activity domestically.

Nonetheless, the offshore market is expanding at a steady pace as investor markets continue to look for offshore savings. This expansion has a direct impact on the growth of South Africa’s profile as an offshore LPS location. Whilst the number of LPS operators remains small in comparison to its more established BPM counterparts, there is still evidence of increasing LPS activity. South Africa now accommodates operations servicing the United Kingdom and Australian markets. What is even more encouraging



is that this activity is spread across the LPS value chain and includes low level transactional processes such as dictation, transcription and medium-level legal processes like, claims management, e-discovery, contract management etc. It also includes highly complex legal processes such as compliance, due diligence, contract drafting and risk management.

South Africa is increasingly being considered as an offshore LPS location because of the country's competitive value proposition. Not only does South Africa offer the benefits that have seen the BPM sector grow, for example, time zone compatibility, corporate cultural affinity, robust infrastructure, it also offers legal and regulatory similarity, a common legal background and already existing legal networks. In addition, the skills pool available in South Africa is commensurate with, or at least comparable to the skills pool in the United Kingdom. These skills are significantly cheaper here than the equivalent level of skills in London, and competitive LPS locations such as Scotland, Wales, and even the Philippines.

The market outlook

The South African LPS market is showing strong growth potential in that there has been steady organic growth particularly in the Western Cape. Our primary market remains the United Kingdom and with the introduction of even more onerous regulations and because of the Jackson Reforms, see Appendix 1, the legal services market is under increasing, – perhaps overwhelming, pressure to provide cost effective services.

However, it is predicted that the legal services market will grow by an estimated US \$700 billion and this anticipated growth will come primarily from non-core legal services, which by definition must be legal process services.

The market therefore is growing globally and key clients are constantly searching for low-cost, best-fit solutions in other countries. The LPS market has established itself organically and without any effort. With some careful planning, focused marketing and strategic government support, South Africa will continue to enrich its profile in the LPS sector and it will become a leading offshore destination.

To view the full report visit the BPESA website www.bpesa.org.za

- Charnel Hebrard – Channel Consult



1. INTRODUCTION

The first contact centre in South Africa was established in the 1970s and it focused mainly on customer service in the financial services vertical. Since then the sector 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 1998, Lufthansa became the first offshore operation to outsource to South Africa. Following their successful rollout, a number of large global BPM operators have since chosen to set up in South Africa. Some of these operators include Aegis, Capita, CCI, EXL, Infosys, Merchants, Serco, Teleperformance, Webhelp and WNS. International brands such as Amazon, Asda, Bloomberg, British Gas, EE, Direct Line Group, iiNet, O2, Shell and Shop Direct have also chosen South Africa as a strategic customer service location.

1.1 Overview of the sector

PROVINCE	DOMESTIC	OFFSHORE	TOTAL SIZE
Gauteng	133,800	5,300	139,100
Western Cape	29,400	16,000	45,400
KwaZulu-Natal	20,100	5,400	25,500
Other	5,000		5,000
Total jobs	188,300	26,700	215,000

Figure 7: National sector overview

- The BPM sector in South Africa employs approximately 215,000 people, contributing at least R50 billion to the national annual GDP

- The offshore market in South Africa is responsible for approximately 26,700 jobs, 59.9% of which have been created since 2010
- Most of South Africa's largest companies have their head offices in Gauteng and the province has the largest domestic market in South Africa with approximately 133,800 employees. This number contributes 71% to the national domestic market share
- The Western Cape is the largest region for international business, with 59.9% of the international market share, followed by KwaZulu-Natal with 20.2% and Gauteng with 19.9%.

1.2 Methodology

It is important to note that there is no comparable historical data for the Gauteng and KwaZulu-Natal regions in the 2015 BPESA BPM Report. In instances where comparisons have been made, historical data extracted from the 2014 BPESA Western Cape Key Indicator Report has been used.

- The first phase of the research process used data from the BPESA quarterly barometer report and findings from previous reports and existing literature from sector research partners
- In the second phase of the process, a quantitative approach was adopted, where an online questionnaire was distributed to the respondents
- The third phase involved telephonic interviews.

1.3 Sampling

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



2. ANALYSIS: KEY FINDINGS

- The number of international jobs in South Africa increased by 23%, from 21,700 in 2014 to 26,700 in 2015. The Western Cape accounted for 87% of the growth, with the remaining 13% shared between KwaZulu-Natal and Gauteng
- Captive centres account for 64.1% of the total BPM market in South Africa, with outsourcers at 35.9%. At a provincial level, Gauteng is dominated by captive centres at 68.7%. In KwaZulu-Natal, 57% of the market is outsourced. In the Western Cape the outsourced market has experienced a 4.2% increase, from 50% in 2014 to 54.2% in 2015
- From a vertical perspective, the financial services sector accounts for 50% of the total market. Among international outsourcers, 53.3% of business is telecoms related while retail accounts for 11.9% and IT for 9.3%. In the Western Cape, telecoms contributes 42% of all international business, a 4.7% increase from 2014
- The UK market is responsible for 59.9% of offshore business in South Africa, with Australia the next largest market at 22.4%. UK investment accounts for 62% of business in the Western Cape, a 1.3% shift from 2014, followed by the US at 12.9%, up by 1.4% in 2015 and Australia at 10.8%, a 1.4% increase over the same period
- 90.9% of all international business is conducted in English, followed by German which accounts for 4.1% of interactions.



2.1 What type of operation are you?

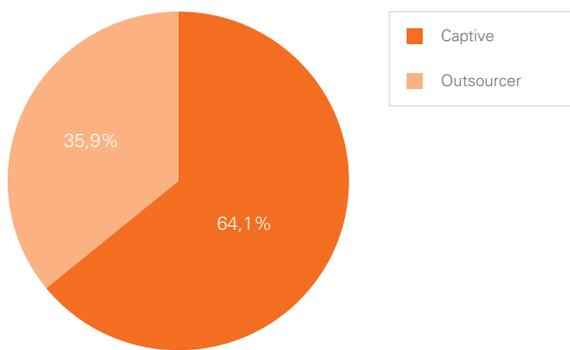


Figure 8: Type of operation

	OUTsourcer		CAPTIVE	
	2015	2014	2015	2014
Gauteng	31,3%	-	68,7%	-
Western Cape	54,2%	50,0%	45,8%	50%
KwaZulu-Natal	57,0%	-	43,0%	-

Figure 9: Type of operation by province

Captives constitute 64.1% of the market while outsourcers account for the remaining 35.9%.

The relatively large captive market in South Africa is driven by Gauteng, which accounts for the largest domestic base, with 68.7% of all operations managed in-house. In the Western Cape and KwaZulu-Natal, outsourcers account for the largest part of the market at 54.2%, and 57% respectively. In the Western Cape, the outsource market grew by 4.2% in 2015.

Traditionally, most large companies in South Africa manage their own centres in-house, but with the advent of outsourcing, we have seen a shift away from in house managed operations. This has been especially prevalent in verticals such as telecoms, where listed companies such as Vodacom and Telkom have outsourced large components of their support functions to international outsourcers operating out of South Africa.

The international market is dominated by outsourcers which account for the majority of foreign business.

2.2 Which industries do you serve as an approximate percentage of your business?

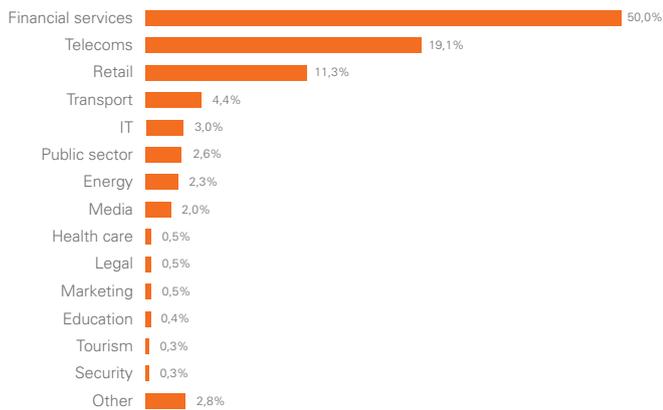


Figure 10: National sector breakdown

Financial services make up 50% of the BPM market. This is followed by telecoms at 19.1% and retail at 11.3%. Financial services are most prevalent in Gauteng where they account for 69.7% of the provincial market, followed by the Western Cape at 43.8% and KwaZulu-Natal at 35.7%.

In the Western Cape, the financial services market grew by 2.1% from 41.7% in 2014 to 43.8% in 2015. The biggest growth in the region was seen in the telecoms sector, which grew from 12.5% to 19.3%.



	GAUTENG	WESTERN CAPE		KWAZULU-NATAL
	2015	2015	2014	2015
Financial services	69,7%	43,8%	41,7%	35,7%
Telcomms	6,8%	19,3%	12,5%	40,9%
Transport	5,5%	4,4%	4,2%	-
Public sector	5,0%	2,9%	4,4%	-
Media	4,0%	0,6%	0,7%	-
Retail	2,4%	11,6%	14,9%	22,9%
Tourism	0,7%	0,1%	-	-
Education	0,6%	0,3%	0,7%	-
Energy	0,6%	4,6%	3,7%	-
Healthcare	0,6%	0,8%	0,4%	-
IT	0,6%	6,1%	6,0%	-
Legal	0,6%	0,5%	7,2%	-
Marketing	0,6%	0,4%	2,0%	-
Security	0,6%	-	0,6%	-
Other	1,4%	4,5%	1,0%	0,5%

Figure 11: Sector breakdown by province



	NATIONAL	WESTERN CAPE	
	2015	2015	2014
Telcoms	53,3%	42,0%	37,3%
Retail	11,9%	12,4%	17,2%
IT	9,3%	18,2%	11,8%
Transport	7,8%	7,4%	5,0%
Financial services	6,3%	1,1%	5,3%
Energy	4,7%	9,2%	4,1%
Public sector	1,4%	2,3%	9,8%
Security	1,3%	-	0,8%
Health care	0,6%	1,2%	0,1%
Education	0,4%	0,7%	0,1%
Media	0,3%	0,6%	0,3%
Legal	0,2%	0,3%	3,0%
Tourism	0,1%	-	-
Marketing	-	-	4,3%
Other	2,4%	4,7%	0,8%

Figure 12: International outsourcer breakdown

In the international outsourcer market, telecoms makes up the majority of business, contributing 53.3%, followed by retail at 11.9% and IT at 9.3%. The mature international telecoms market is driven by the presence of a number of the UK's largest telecoms operators using South Africa to service their customers.

In the Western Cape, telecoms accounts for 42% of all international business, a 4.7% increase from 2014.

2.3 As an approximate percentage, state the service functions of your operation

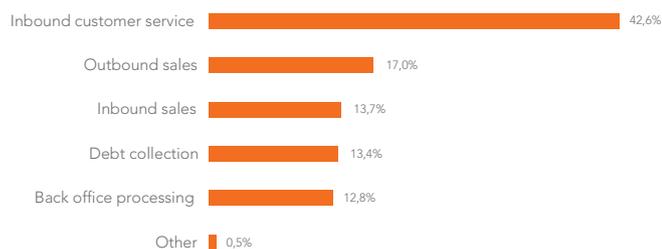


Figure 13: Service function breakdown

	GAUTENG	WESTERN CAPE		KWAZULU-NATAL
	2015	2015	2014	2015
Inbound customer service	45,1%	52,9%	63,0%	10,9%
Inbound sales	24,5%	8,1%	5,5%	-
Back office processing	16,7%	13,7%	13,8%	1,4%
Outbound sales	7,6%	9,7%	7,6%	58,0%
Debt collection	6,0%	14,0%	9,1%	29,7%
Other	-	1,7%	1,0%	-

Figure 14: Service function breakdown by province

42.6% of business interactions in South Africa are inbound customer service related. This is followed by outbound sales at 17% and inbound sales at 13.7%.

In the Western Cape and Gauteng, inbound customer service interactions account for the largest component of business at 52.9% and 45.1% respectively, while in KwaZulu-Natal, 58% is outbound sales based.

Despite contributing the largest portion of business in the Western Cape, the amount of inbound customer service in the region decreased by 10.1% in 2014 and it now accounts for 52.9% of all business in the region. As the market continues to mature, we expect to see more diversity, with growth in other service functions.

2.4 As an approximate percentage of your offshore business, how much do the following destinations contribute?

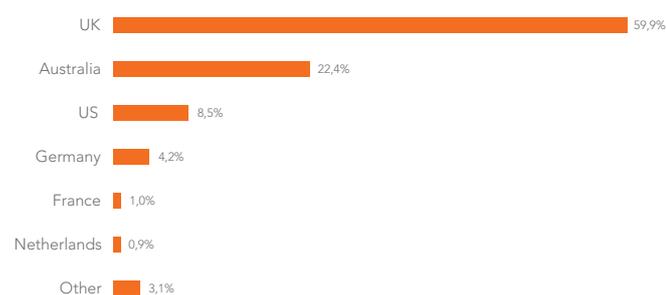


Figure 15: International markets serviced

	GAUTENG		WESTERN CAPE		KWAZULU-NATAL
	2015	2015	2014	2015	
UK	61,3%	62,0%	63,3%	55,0%	
Australia	28,8%	10,8%	9,4%	45,0%	
USA	5,3%	12,9%	11,5%	-	
Germany	-	6,8%	4,9%	-	
France	-	1,7%	1,9%	-	
Netherlands	-	1,5%	1,1%	-	
Other	4,6%	4,3%	7,9%	-	

Figure 16: International markets serviced by province

The UK is the largest source of foreign business in South Africa, with 59.9% of the market share. It is followed by Australia at 22.4% and the US at 8.5%. The largest non-English speaking location being served is Germany at 4.2%.

The remaining 5% is divided amongst the rest of Africa, Italy, Netherlands, China, Greece, Denmark, Japan, Luxemburg, Portugal, Russia, Spain and Switzerland.

In the Western Cape, UK clients account for 62% of foreign business, a 1.3% shift from 2014 followed by the US at 12.9%, up by 1.4%, and Australia at 10.8%, a 1.4% increase over the same period. In KwaZulu-Natal the UK accounts for 55% of foreign business with Australia contributing the remaining 45%.

With an increasing number of Australian companies looking to offshore business, we expect growth in this market is expected to accelerate over the next 12 – 18 months.

2.5 As an approximate percentage of your international business, how much of your business services the following languages?

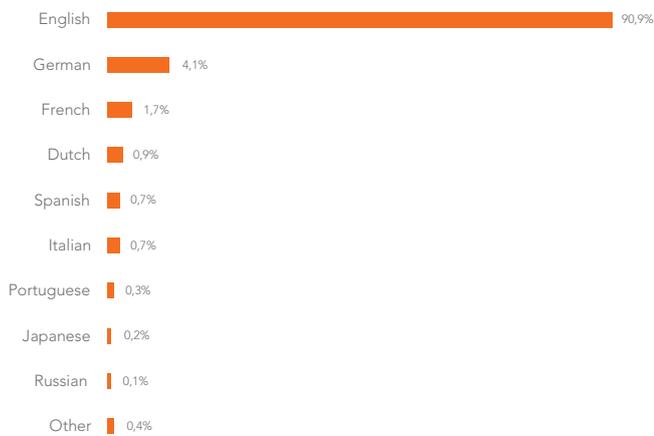


Figure 17: Languages used to service international business

In the offshore market, 90.9% of all interactions are done in English, followed by German at 4.1%. The large English market is driven by a strong UK presence and the growing Australian and US markets. Where foreign language offerings are provided, they are generally used as a secondary service offering alongside English.

With approximately 410,000 graduates with English language skills from schools and universities each year entering the work environment (Everest Group), South Africa is well positioned to service English speaking locations on a large scale.

South Africa also offers pockets of European language capabilities, with large communities of German, French, Italian and Portuguese speakers.

Immigration laws introduced by the Department of Home Affairs in 2014 may assist the movement of foreign speaking non South Africans into the country, allowing companies to use South Africa as a hub for both English and other European languages.

3. OPERATIONS: KEY FINDINGS

- Companies in South Africa use multiple service channels although 97.4% still use the telephone as the main medium to service their customers. On the back of a global shift towards omni-channel usage, social media, smartphone applications and webchat are gaining prominence as key channels of communication. The findings show that social media is used by 83.3% of companies, with smartphone applications at 68.4% and webchat 58.9%
- Companies use multiple assessment tools to measure the quality of their agents' communication, with side-by-side coaching and recorded calls seen as the most effective, at 91.9%, followed by customer feedback at 86.5%
- With the global shift towards multichannel engagement, it is expected that staff will be trained to work across multiple service platforms
- Of the companies using social media, 59.5% of them use it for marketing purposes and complaint handling, 48.6% for advertising and 40.5% for customer service queries.

3.1 Does your contact Centre make use of the following distribution channels? (Select all that apply)

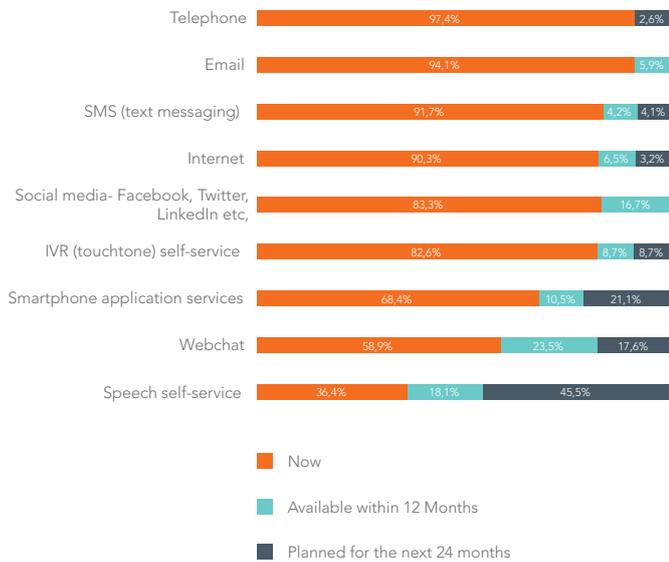


Figure 18: Distribution channel usage

Companies in South Africa use multiple service channels with 97.4% using telephony to service their customers.

With the global shift towards omni-channel usage, social media, at 83.3%, smartphone applications at 68.4% and webchat at 58.9% are gaining prominence as the main service channels and they are expected to play an increasingly important role in the transformation of contact centres. The shift to omni-channel usage is expected to have an impact on the training of staff, given that staff members are now expected to be multi-skilled and able to deal with different platforms when servicing their clients.

Within the next 12 months, it is expected that a significant number of companies will adopt social media as an engagement tool with their customers.

3.2 If you answered "now" in fig 18, what drives you to make use of these service channels?

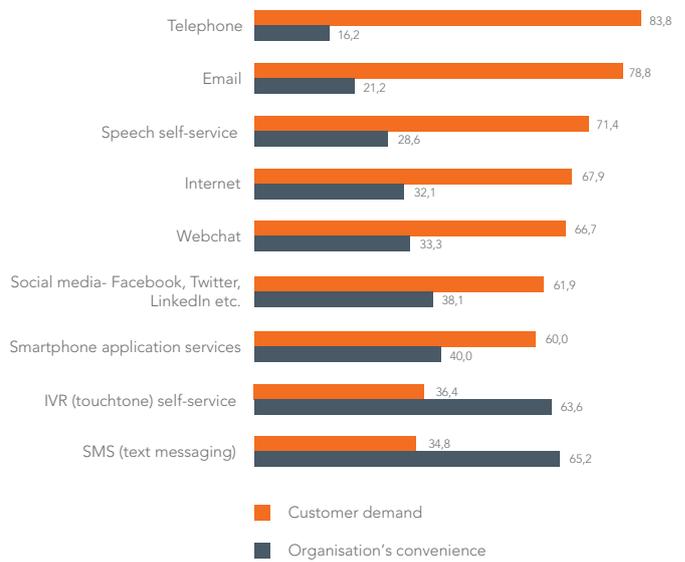


Figure 19: Drivers of distribution channel choice

Telephone is still the most popular service channel for customers at 83.8%, followed by email at 78.8%. With technology driving a global shift towards omni-channel usage, an increase in social media, web chat and smartphone application usage is predicted.

As part of an effort to automate the customer service process, IVR accounts for 82.6% of all interactions (refer to fig 18), this is being driven by the organisation at 63.6%, while the demand for the channel from the customer is 36.4%.

	CUSTOMER DEMAND		ORGANISATION'S CONVENIENCE	
	Western Cape 2015	Western Cape 2014	Western Cape 2015	Western Cape 2014
Telephone	89,5%	75,9%	10,5%	24,1%
e-mail	85,0%	70,4%	15,0%	29,6%
Internet	70,6%	54,5%	29,4%	45,5%
IVR (touchtone) self-service	30,8%	41,7%	69,2%	58,3%
SMS (text messaging)	38,5%	35,3%	61,5%	64,7%
Social media - Facebook, Twitter, LinkedIn etc.	71,4%	71,4%	28,6%	28,6%
Web chat	80,0%	75,0%	20,0%	25,0%
Smartphone application services	70,0%	66,7%	30,0%	33,3%
Speech self service	83,3%	100,0%	16,7%	-

Figure 20: Drivers of distribution channel choice in the Western Cape

Despite the growth in online channels, telephone continues to be the most popular service channel for customers in the Western Cape at 85.9%, a 14% increase from 2014. There was also an increase in demand for email, internet and web chat from customers, while IVR saw a drop in customer demand from 41.7% in 2014 to 30.8% in 2015.

3.3 Which of the following factors do you consider in your development strategy? (Select all that apply)



Figure 21: Contact centre development strategy

Customer satisfaction, at 93.3%, and cost reductions, at 84.4%, are the two main considerations for the operation development strategy, followed by staff satisfaction at 77.8%.

3.4 Which of the following do you use to measure the effectiveness of your contact centre?



Figure 22: Measurement of contact centre effectiveness

The most common metrics for measuring the effectiveness of an operation is customer satisfaction, at 86%, followed by customer complaint levels at 65.1%. Companies use multiple metrics when measuring the effectiveness of their contact centres.

3.5 Which of the following do you use to assess the quality of agents' communication? (Select all that apply)

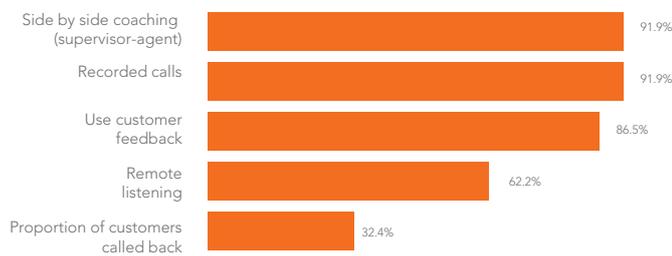


Figure 23: Quality assessment of agents' communication

Companies use multiple assessment tools although side-by-side coaching and recorded calls are seen as most effective.

3.6 What are you doing to develop skills within your centre?



Figure 24: Skills development strategy

Upskilling of staff to work across multiple query types, along with knowledge management tools are the most common skills development strategies both at 80.6%. With the global move towards multichannel engagement, it is expected that staff will increasingly be taught to work across multiple platforms.

3.7 Do you use any of the following social media to service clients? (Select all that apply)

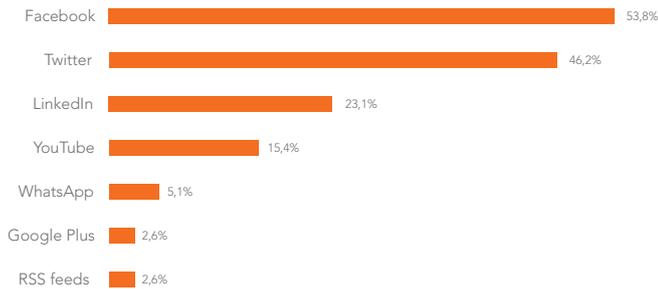


Figure 25: Social media usage

Evidence from respondents who use social media to engage with their customer service base indicates that Facebook and Twitter are the two frequently used service channels at 53.8% and 46.2% respectively. These channels are typically used to respond to customer queries and complaints while the other channels such as LinkedIn and YouTube are used primarily as information sharing tools and not necessarily for direct client interactions.

3.8 What do you use social media for? (Select all that apply)

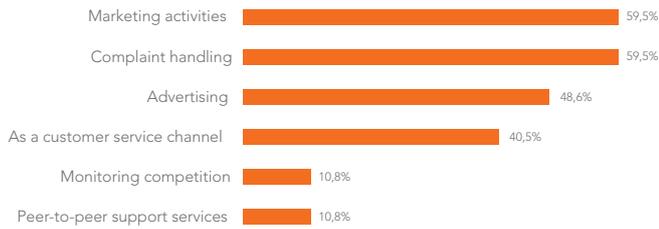


Figure 26: Reasons for using social media

Of the companies using social media, 59.5% use it for marketing purposes and complaint handling, 48.6% for advertising and 40.5% to deal with customer service queries.

As the demand for social media continues to grow, organisations are expected to develop service strategies specifically to deal with customers on social platforms.

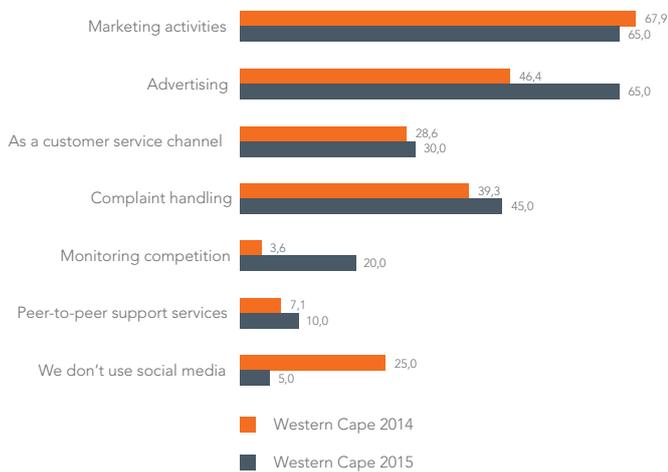


Figure 27: Reasons for using social media in the Western Cape

The number of companies using social media in the Western Cape has increased by 20% in 2015. In 2014, 25% of companies were not using social media, this number has fallen now to just 5% in 2015.



9 REASONS TO CHOOSE WNS SOUTH AFRICA

A **safe** pair of hands



20+ clients
11 years experience
4000+ employees

National Footprint of **6** sites



Choice of **3** Locations in **Cape Town**



Glocalised Approach

Combining local expertise with global resources



End-to-End contact centre services

Customer Services • Retention
• Acquisition • Analytics • Collections • Social CRM

End-to-End BPO Capability



HRO LPO R&A F&A

Delivery Innovation



BI • Analytics • Robotics • OMNI-Channel • Multi Media



Our strong **Focus on people**

Expertise in Transitions

1 - 800 FTE
Local & International
Proof of Concept



4. HUMAN RESOURCE: KEY FINDINGS

- The BPM sector is maturing and becoming a sustainable source of employment with 91.7% of agents permanently employed
- The average attrition rate for agents in South Africa is 30.9%. Attrition rates are highest among international outsourcers: 46.4% in Gauteng, 50.8% in the Western Cape and 54.5% in KwaZulu-Natal. Attrition among international outsourcers in the Western Cape increased by 4% in 2015 to 50.8%
- The average absenteeism rate for the sector is 7.3%. Absenteeism is highest in KwaZulu-Natal at 8.5%, followed by the Western Cape at 7.3% and Gauteng at 5.6%. In the Western Cape overall absenteeism improved by 1.4% from 8.7% in 2014 to 7.3% in 2015
- In terms of staff transport needs, 64.7% of companies pay for their staff transport after late shifts, while 29.4% share the costs with their staff and 5.9% require their staff to pay for their own transport
- 60.7% of agents employed by international outsourcers are between the ages of 18 and 25, and 33.9% between 26 and 30
- 47.9% of agents employed by domestic companies are between the ages of 26 to 30 and 42.6% between 18 and 25.

4.1 Indicate the employment status of your staff



Figure 28: Employment status

The percentage of staff employed on a permanent basis in the sector is 91.7%, positioning the sector as an important job creator for the country.

4.2 Indicate the dominant age group of your agents

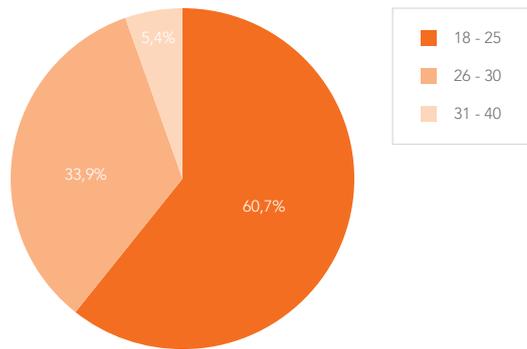


Figure 29: Agents by age group in domestic operations

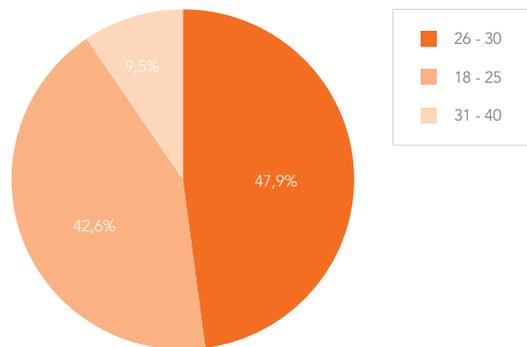


Figure 30: Agents by age group in international operations

Staff members in the domestic market are generally older than those working for international outsourcers. This may be attributed to higher salaries in the domestic captive market. The largest group of domestic employees are between 26 and 30 at 47.9%, followed by 18 – 25 at 42.6%. In the international market, 60.7% of staff members fall in the 18 – 25 age bracket, followed by 33.9% in the 26 – 30 bracket.

4.3 What is your average entry level monthly salary for agents?

	CAPTIVE DOMESTIC										
	ZAR minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension 5%	ZAR Bonus 10%	ZAR total costs with benefits	GBP total with benefits	USD total with benefits	EURO total with benefits
Gauteng	9,667	459	702	626	762	483	967	11,879	564	863	769
Western Cape	8,300	394	603	538	762	415	830	10,307	489	749	668
KwaZulu-Natal	4,375	208	318	283	611	219	438	5,642	268	410	365

Figure 31: Agent entry level salary information for captive domestic

	CAPTIVE INTERNATIONAL										
	ZAR minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension 5%	ZAR Bonus 10%	ZAR total costs with benefits	GBP total with benefits	USD total with benefits	EURO total with benefits
Gauteng	10,750	510	781	696	1,176	537,5	1,075	13,539	643	983	877
Western Cape	7,500	356	545	486	752	375	750	9,377	445	681	607
KwaZulu-Natal	-	-	-	-	-	-	-	-	-	-	-

Figure 32: Agent entry level salary information for captive international

	OUTSOURCE DOMESTIC										
	ZAR minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension 5%	ZAR Bonus 10%	ZAR total costs with benefits	GBP total with benefits	USD total with benefits	EURO total with benefits
Gauteng	6,167	307	448	399	611	308	617	7,703	366	448	399
Western Cape	5,000	249	363	324	611	250	500	6,361	302	363	324
KwaZulu-Natal	2,625	131	191	170	611	131	263	3,63	172	191	170

Figure 33: Agent entry level salary information for outsource domestic

OUTSOURCE INTERNATIONAL											
	ZAR minimum average salary cost	GBP total without benefits	USD total without benefits	EURO total without benefits	ZAR Medical Aid	ZAR Pension 5%	ZAR Bonus 10%	ZAR total costs with benefits	GBP total with benefits	USD total with benefits	EURO total with benefits
Gauteng	6,700	318	487	434	611	335	670	8,316	318	487	434
Western Cape	6,000	285	436	389	611	300	600	7,511	285	436	389
KwaZulu-Natal	3,250	154	236	210	611	163	325	4,349	154	236	210

Figure 34: Agent entry level salary information for outsource international

Salaries in Gauteng are generally the highest, followed by the Western Cape and KwaZulu-Natal respectively. The difference in salary scales can be attributed to the type of work and verticals serviced. Back office functions and financial services are generally better paid with most of this type of work taking place in Gauteng.

Financial services are typically the best paid of all the sectors. In terms of service functions, inbound customer service pays a higher base entry level salary with outbound work typically commission driven.

The Gauteng service offering is built around a mature financial services market, which is reflected across the various operational salaries for both the domestic and international markets.

The Western Cape services an array of sectors, although the province's main focus areas are financial, telecoms and retail. The majority of the work serviced out of the region deals with inbound customer service interactions.

Salaries in KwaZulu-Natal are the lowest of the three main regions. This could be attributed to the nature of work done. The majority of interactions in this region deal in outbound sales, where commission/incentives are far more influential than in the inbound environment.

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

4.3.1 Rand performance against British Pound, the Euro and the US Dollar

The graph shows the exchange rates of the Rand (ZAR) against major currencies such as the Euro (EUR), British Pound (GBP) and US Dollar (USD):



Figure 35: Rand performance against Euro, Dollar and Pound

4.4 What is your annual attrition rate?

Annual Attrition is calculated as - *Voluntary resigns of full-time employees in a calendar year / (Opening Headcount at the beginning of year + Closing headcount at the end of the year/2)]*100.



Figure 36: Annual attrition rate

	GAUTENG	WESTERN CAPE		KWAZULU NATAL
	2015	2015	2014	2015
Captive domestic	19,8%	11,9%	13,8%	16,3%
Captive international	19,6%	15,9%	28,2%	-
Outsource domestic	27,3%	36,3%	34,4%	33,3%
Outsource international	46,4%	50,8%	46,8%	54,5%

Figure 37: Annual attrition rate by operation, by province

The average attrition rate for agents in South Africa is 30.9%. Attrition rates are highest among international outsourcers, with 46.4% in Gauteng, 50.8% in the Western Cape and 54.5% in KwaZulu-Natal. The attrition rate of international outsourcers in the Western Cape has increased by 4% from 46.8% in 2014 to 50.8% in 2015.

Attrition is very high among outsourcers, but significantly lower among both international and domestic captives. A possible reason for higher attrition rates among international outsourcers could be due to the higher competition for talent among international companies.

4.5 What is your annual absenteeism rate due to?

Annual absenteeism is defined as - The habitual pattern of absence from work. In the BPM sector and in this report, absenteeism refers to the average number of days absent from work, as a percentage of the total number of days available for work. The total number of days available for work excludes public or bank holidays and scheduled annual leave.



Figure 38: Absenteeism rate

	GAUTENG		WESTERN CAPE		KWAZULU NATAL
	2015	2015	2014	2015	
Captive domestic	7,3%	7,6%	8,6%	13,6%	
Captive international	6,4%	9,1%	5,4%	-	
Outsource domestic	4,3%	7,4%	13,4%	11,8%	
Outsource international	5,8%	5,6%	5,6%	4,1%	

Figure 39: Absenteeism rate by province, by operation

Average absenteeism rate in the sector is 7.3%, with the highest rate in KwaZulu-Natal at 8.5%, followed by the Western Cape at 7.3% and Gauteng at 5.6%. Absenteeism is generally higher among captive operations. In the Western Cape, overall absenteeism improved by 1.3% in 2015, from 8.7% in 2014.

4.6 If your company offers transport for late shift work, who pays for it?

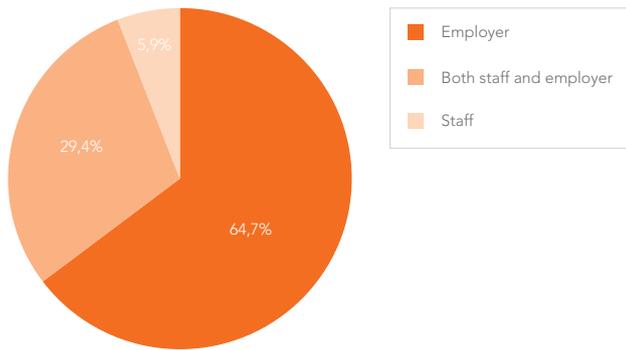


Figure 40: Transport for late shift work

Of the companies providing transport, 64.7% pay for their staff's transport when they work night shifts (6pm -6am), with 29.4% sharing the costs with the staff and 5.9% requiring their staff to pay for their transport costs.

4.7 On average, how many days of training do staff members receive per annum in the following categories?

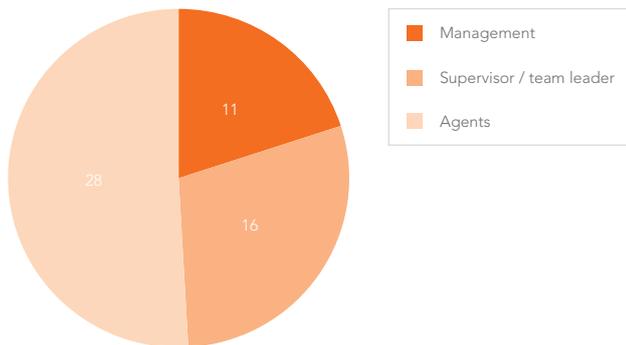


Figure 41: Staff training days

Agents receive on average 28 days of training annually; supervisors/team leaders receive 16 days and management 11 days. This shows the commitment of organisations to staff development, with a focus on developing entry level talent to meet the required standards of their customers.

4.8 Please select operational times applicable to you

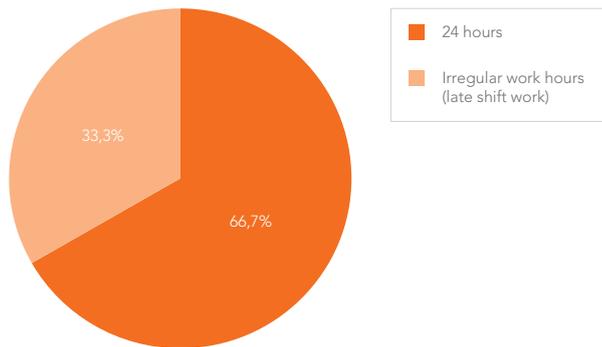


Figure 42: Operation times - Outsource international

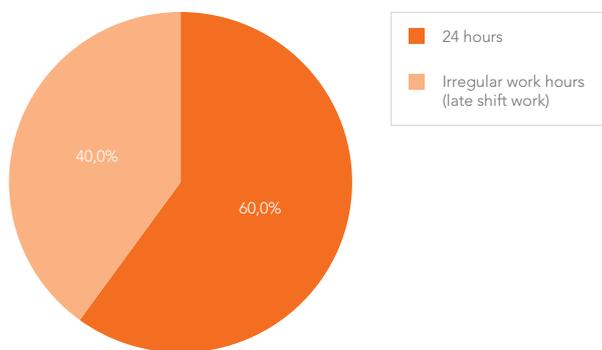


Figure 43: Operation times - Captive international

International outsourcers generally work outside traditional working hours. This could be attributed to the companies servicing their clients in different time zones with 66.7% providing 24/7 customer support.

A high number of staff work outside traditional South African working hours due to the servicing of a large UK client base, while a growing number of Australian and US companies operate 24/7 customer service. The results are similar to those of the international captive market with 60% providing 24/7 service support, while the remaining 40% work irregular hours.



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INVESTING IN SOUTH AFRICA

Introduction

As it is the case in most developing countries, South Africa welcomes foreign investment for its continued growth, and the Government therefore has an open policy framework for foreign investors. The principal attractions for foreign investors to South Africa are:

- The country is ranked as one of the most advanced countries in Africa in terms of technological advancement and economic stability
- It has a democratically elected government and a constitution based on democratic values, social justice and fundamental human rights
- It is endowed with natural mineral sources, and it is the main producer of precious metals and other valuable minerals
- South Africans possess sufficient amounts of disposable income with high demands for consumer goods
- Its location at the southern tip of Africa is ideal for exports to and imports from any part of the world
- It has a highly developed infrastructure and communications network, and prices of most commodities are relatively low.

Other considerations for foreign investors include:

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

General information

Area and population

South Africa occupies most of the southern African region in terms of land mass. Its surface area is 1,220,031 sq. km or 471,445 sq. miles. The country is approximately five times the size of the United Kingdom and it is larger than the combined areas of France, Germany and Italy.

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

In 2015, the South African mid-year population was estimated at 54,96 million consisting of 80,5% Black, 8,8% Coloured, 2,5% Indian/Asian and 8,2% White (Statistics South Africa).

Language

There are eleven official languages although English and Afrikaans are the dominant languages. Each of the major Black ethnic groups speaks their own language.

Currency

The official currency of South Africa is the Rand (ZAR).

Banking and Finance

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

The South African Reserve Bank (SARB) is the central bank and it controls the currency, holds the gold bullion, issues bank notes, coinage and formulates guidelines for monetary and credit policy. It also exercises exchange control.

The financial sector consists of three main types of banking institutions, namely commercial banks, general banks and merchant banks. The major banks are: ABSA Bank Ltd (member of the Barclays Group), First National Bank Ltd, Standard Bank Ltd and Nedbank Ltd.

Economic Growth and key strategies

Inflation

The South African Reserve Bank (SARB)'s inflation target is between 3 and 6%. The recorded headline inflation for the past 7 years is set out below:

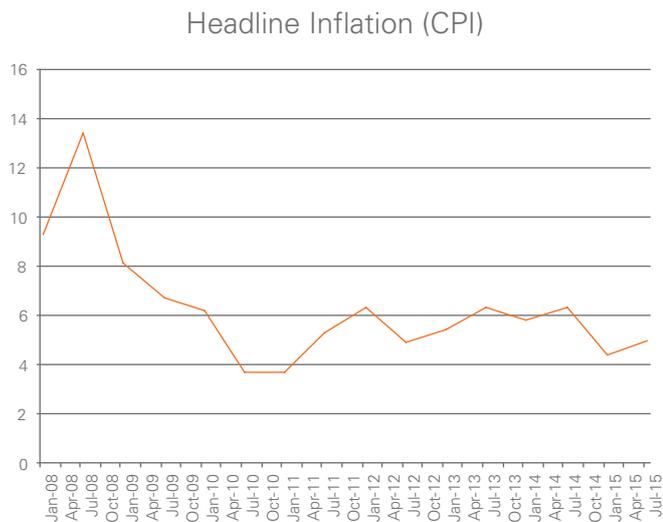


Figure 44: Headline inflation rates

GDP Size and Growth

GDP Annual Growth Rate in South Africa is reported by Statistics South Africa. The country's GDP averaged 1.5% in 2014, compared to 1.7% from 2015 to date.

GDP Annual Growth Rate (Y/Y)

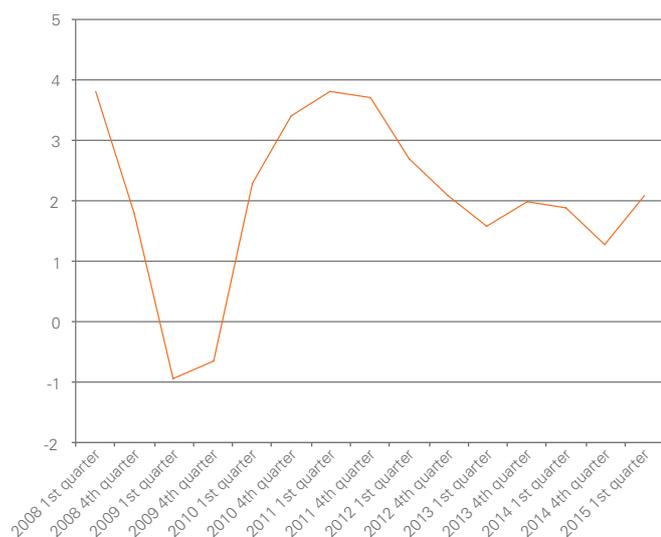


Figure 45: GDP annual growth rate

World Rankings

The Doing Business Project provides objective measures of business regulations and their enforcement across 189 economies and selected cities at subnational and regional levels. In the 2015 Doing Business Report, South Africa obtained an overall ranking of 43rd out of 189 economies (2014: 41st out of 189 economies).

Despite the drop in overall ranking, South Africa is still 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. The following figure is an extract from the 2015 Doing Business Report, listing the ranking obtained by the BRICS countries and The Philippines in specific areas:

ECONOMY	EASE OF DOING BUSINESS RANK	STARTING A BUSINESS	GETTING CREDIT	PAYING TAXES	TRADING ACROSS BORDERS
South Africa	43	61	52	19	100
Russian Federation	62	34	61	49	155
China	90	128	71	120	98
Philippine	95	161	104	127	65
Brazil	120	167	89	177	123
India	142	158	36	156	126

Figure 46: Ease of doing business, a global comparison

Interest rates

The prime interest rate is the benchmark interest rate in South Africa and it is reported by the South African Reserve Bank (SARB). The Prime Interest Rate in South Africa averaged 13.7% between 1994 and September 2015, reaching an all-time high of 25.5% in June of 1998 and a record low of 8.5% in July of 2012. In South Africa, the interest rates are decided by the South African Reserve Bank's Monetary Policy Committee (MPC). Over the past five years, the prime interest rate remained stable with an average of 8.93% for the period October 2010 to July 2015.

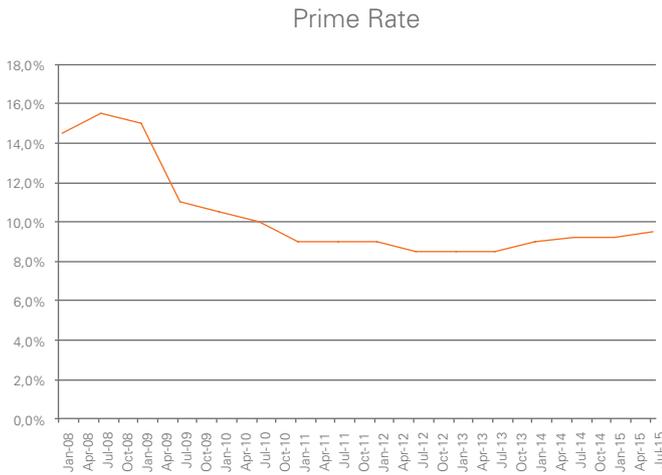


Figure 47: Change in prime interest rate

Currency

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



Figure 48: Rand performance against Indian Rupee, Philippines Peso

Regulation of foreign investment

Control of foreign investment is driven through the Financial Surveillance Department ("FinSurv") of the South African Reserve Bank and through Authorised Dealers in foreign exchange at commercial and merchant banks. In recent years, the control of foreign investments has been significantly relaxed. For example:

- Temporary residents in South Africa have practically no limitations on remitting earnings and savings, provided they make the prescribed declarations. Any dividends, royalties and interest paid from current earnings may be freely remitted
- A South African company, foundation, trust or partnership, where 75% or more of the capital, assets, earnings, voting securities, voting power or power of control vest in or are controlled directly or indirectly by non-residents is defined as an affected person and may not apply for local financial assistance without Authorised Dealer's authority. An Authorised Dealer may freely grant or authorise local financial assistance to an affected person where the transaction does not relate to the acquisition of residential property and financial transactions
- Where non-residents or emigrants wish to invest in a bona fide foreign direct investment in South Africa, they may do so without restriction unless the funds are required for financial transactions and/or for the acquisition of residential or commercial property in South Africa. In this case the 1:1 ratio will apply and permission can be obtained from their Authorised Dealer
- All dividends from realised/earned profits may be remitted to non-resident shareholders against production of a board resolution. The declaration of a dividend in specie or a special dividend requires prior approval of FinSurv
- Where affected persons avail themselves of local borrowing facilities, the Authorised Dealer may allow the remittance of dividends/profit distributions, provided the affected person is not in an over-borrowed position
- Where local financial assistance exceeds the percentage permissible, FinSurv consent must be obtained.

Government incentives

The dti Business Process Services (BPS) incentive

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

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

Non-complex Jobs

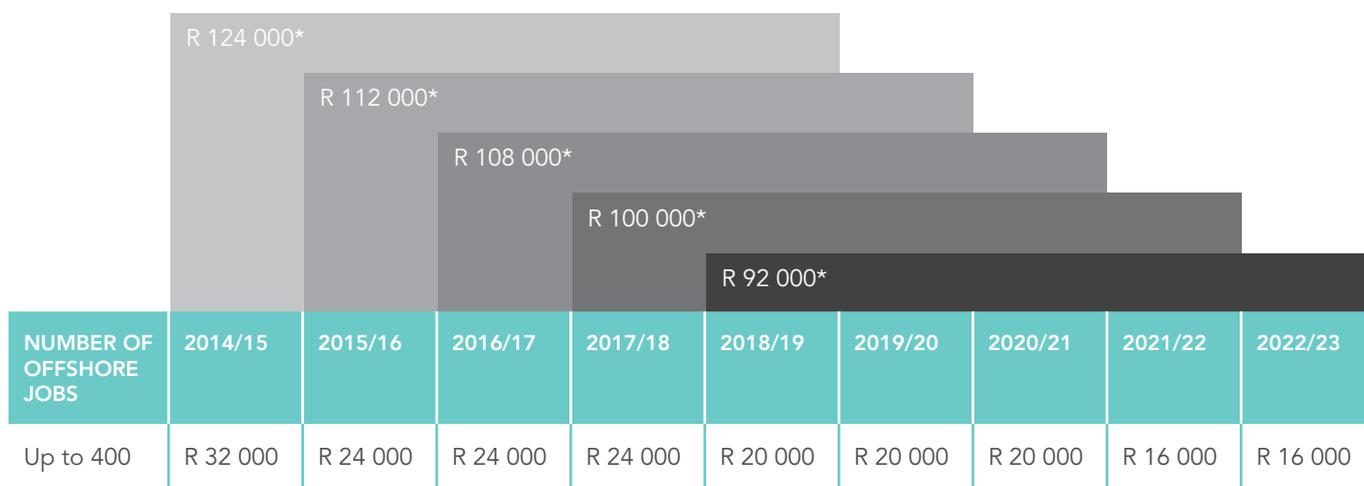


Figure 49: The dti BPM incentive, noncomplex job breakdown

Complex Jobs

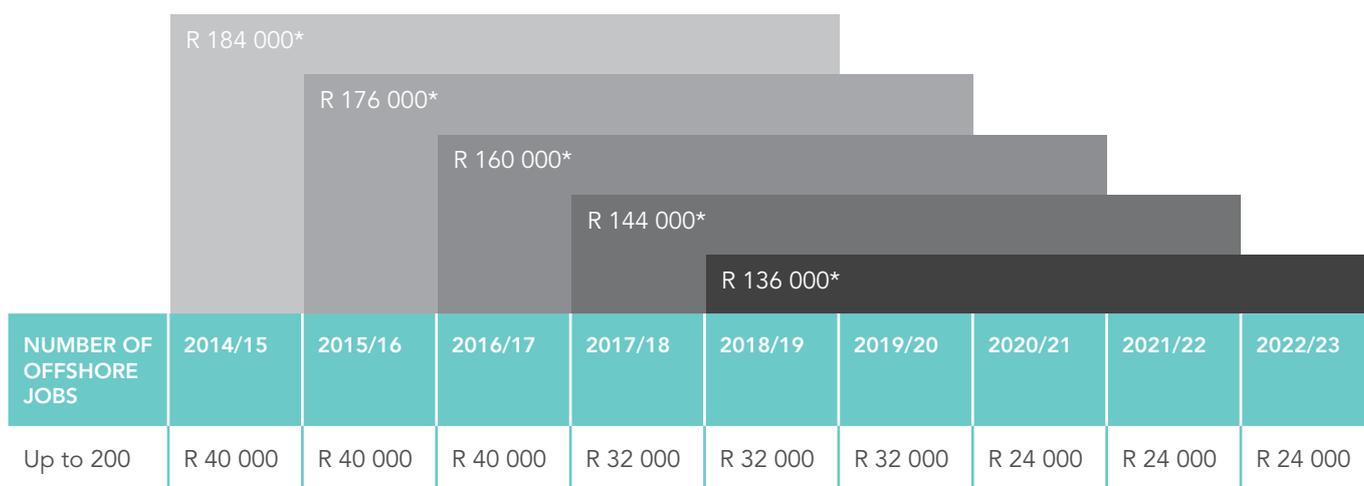


Figure 50: The dti BPM incentive, complex job breakdown

“Non-complex jobs” are jobs where the fully loaded operating cost is less than or equal to R300,000 per annum with wages contributing at least 65% of the operating cost base for a steady state of operation.

“Complex jobs” are jobs where the fully loaded operating cost is greater than R300, 000 per annum per job with wages contributing at least 65% of the operating cost base for a steady state of operation.

To be eligible for the incentive, international organisations are required to reach a level 4 B-BBEE status. This typically requires organisations to achieve a score of 80 or more points on the B-BBEE Generic Scorecard.

The award of points within the scorecard is shown in Exhibit v-4

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

Figure 51: B-BBEE generic score card

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

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

For a full breakdown of the incentive, visit www.bpesa.org.za/useful-links/

General incentives

Government incentives to promote secondary sector, exports, foreign investment, black economic empowerment and employment are mainly in the form of either cash grants or tax concessions. In general, the declared policy is to replace tax concessions with direct subsidies.

Various direct subsidies are available:

- Black Business Supplier Development Programme (BBSDP)
- Critical Infrastructure Programme (CIP)
- Business to Business Programme (BTBP)
- Technology and Human Resources for Sector Programme (THRIP)
- Capital Projects Feasibility Programme (CPFP).

Employment Tax Incentive (ETI)

The ETI is a two year incentive aimed at encouraging employers to hire young and less experienced work seekers. It was implemented on 1 January 2014 and it reduces the effective cost to employers of hiring young South Africans aged 18 to 29, earning less than R6,000 per month. This is done through a deduction against the monthly employees' tax liability payable to SARS in respect of qualifying employees on a sliding scale of R500 to 50% of monthly remuneration.

Other tax incentives

Other available tax incentives include:

- A preferential corporate tax rate for micro or small business corporations
- Special deductions for qualifying research and development activities
- Accelerated capital allowances for small business corporations
- Urban and infrastructure development allowances
- Learnership allowances
- Renewable Energy allowances
- Film Sector allowances

Types of investment vehicles

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

Companies

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

- Public companies – identified by the words “Limited” or “Ltd” behind its name
- Private companies – identified by the words “Proprietary Limited” or “Pty Ltd” behind its name
- Personal liability companies and
- State-owned companies.

The tax rate applicable to companies is 28%.

Branches of external companies

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

The tax rate applicable to branches is 28%.

Partnerships

A partnership is a contractual agreement between parties and the parties may be individuals or corporate entities. This structure provides for great flexibility as to its nature and formation, however, generally partners are jointly and severally liable for the debts of the partnership although the partnership agreement may provide for the limited liability of a partner. Partners are taxed separately at the rates applicable to individuals (maximum 41%).

Trusts

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

The general rule is that trusts are taxed at the rate of 41% on income and 27.3% on capital gains.

Sole proprietorships

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

Joint ventures

A joint venture is a contractual agreement between business entities. The business entities will be taxed separately at the rate applicable to such entity.

Setting up and running business organisations

General

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

The powers and duties of officials regarding meetings, running a company, representation of a company, etc. are prescribed by the Companies Act 2008.

A public officer must be appointed and this officer must be a South African resident. The public officer must take responsibility for the tax affairs of the company.

Companies

A public company must have at least two directors and a private company one director. Directors need not be resident in the Republic, but every company must appoint a SA resident to be its public officer who will accept responsibility for all the company’s tax matters.

External companies (branches)

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

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

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

Trusts

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

Debt/equity ratio

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

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

The South African income tax legislation in so far as it relates to thin capitalisation and transfer pricing was recently substantially amended (refer to thin capitalisation and transfer pricing under the "Company, Social Security and Other Business Taxes" Section).

Broad-Based Black Economic Empowerment and Affirmative Action

Broad-Based Black Economic Empowerment (B-BBEE) is a programme which promotes the accelerated integration of black people into the South African economy. In terms of Section 10 of the Broad-Based Black Economic Empowerment Act, Act 53 of 2003, only organs of state and public entities are compelled to take into account any relevant code of good practice issued in terms of the aforementioned Act. Currently, compliance is voluntary in the private sector, however due to the Preferential Procurement being one of the B-BBEE scorecard elements, companies are indirectly compelled to become B-BBEE compliant.

Labour law

All employment contracts must comply with South Africa's Basic Conditions of Employment Act. The Labour Relations Act 1995 contains restrictive provisions for both the employer and employee regarding unfair labour practices and unfair dismissals. The Commission for Conciliation, Mediation and Arbitration (CCMA) arbitrates collective bargaining and settles disputes between trade unions, employees and employers. The Labour Court is the final body to hear all disputes, which could not be settled by the CCMA.

Company, social security and other business taxes

The Source of income tax law in South Africa is the Income Tax Act 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 double taxation agreements at present.

Taxes in general

Income tax is imposed on a taxpayer's taxable income, which consist of business/trading income, passive income and capital gains less expenses incurred in the production of income.

The major forms of taxes are:

- Capital Gains tax: 66.6% (33.3% in the case of individuals) of realised capital gains are included in taxable income and taxed at the normal income tax rates
- Normal income tax: levied at a fixed rate of 28% on most corporate entities and external branches;
- Value added tax at 14%
- Transfer duty: applies to the transfer of immovable property at a sliding scale from 0 - 11%
- Donations tax at 20%, payable on donations, disposals of assets for inadequate consideration and surrendering of rights. This tax is not applicable to public companies and non-residents
- Estate duty at 20%, levied on the dutiable amount of the estate.

Resident companies

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

A resident company is taxed on its worldwide income.

A resident company can also elect headquarter company status in a tax year. This is referred to as a headquarter company (HQ Co). There are a few requirements for electing HQ Co status, but once elected:

- Dividends paid by an HQ Co are exempt from normal tax in the shareholders hands;
- Dividends paid by a HQ Co are not subject to Dividends Tax subject to certain conditions;
- The capital gain or loss that a HQ Co makes on the disposal of a qualifying investment must be disregarded;
- A HQ Co is subject to normal tax on its taxable income. Dividends from qualifying investments will be exempt due to the participation exemption.

Dates of financial and tax year ends

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

Corporate entities are required to pay provisional tax. Provisional tax is an advanced payment of company's normal tax liability and it is paid twice a year with a voluntary third payment. These payments normally take place six months before year-end, on year-end and six months after year-end.

Dividends Withholding Tax (DWT)

Local dividends received by non-residents are subject to a final withholding tax at a rate of 15%. This is subject to the provisions of any applicable tax treaty.

Withholding tax on interest

With effect from 1 March 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.

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 R500,000 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.

Value added tax (VAT)

VAT is an indirect system of taxation and is levied on the supply of goods or services made by any vendor in the course or furtherance of an enterprise, as well as on the import by any person of goods and services.

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

A vendor making standard or zero-rated supplies of more than R1 million in a 12-month period is obliged to register. Vendors making taxable supplies between R50k and R1 million in a 12-month period may elect to register as a VAT vendor voluntarily. VAT returns must generally be submitted every two months, unless turnover exceeds R30 million per annum, in which case a monthly return must be submitted.

Source: Mazars

SOUTH AFRICAN TELECOMMUNICATION LANDSCAPE

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

There are currently two landline telecommunications service providers operating in South Africa: Telkom and Neotel. Neotel is in the final stages of being acquired by mobile operator, Vodacom following approval from the Competition Commission granted during the first half of 2015.

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

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

The number of South Africans using mobile and smartphones has increased significantly. According to Wearesocial, the increasing use of smartphones has resulted in the growth of internet users with active internet user penetration, now estimated at 46%. Social media is always growing in South Africa with active accounts of around 11.8 million, which is around 22% penetration. South Africa also has a robust internet provider market which is evident in the size of the ISPA's (Internet Service Provider Association) member list. In August 2015, the association had 173 registered members.

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

Infrastructure

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

As of July 2015, South Africa's undersea cable capacity was 87.54 terabits per second provided by 10 providers: Seacom, EASSy, TEAMs, WACS, MainOne, GLO1, ACE, SAex, WASACE, and BRICS

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

Broadband

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

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

Source: Internet Solutions

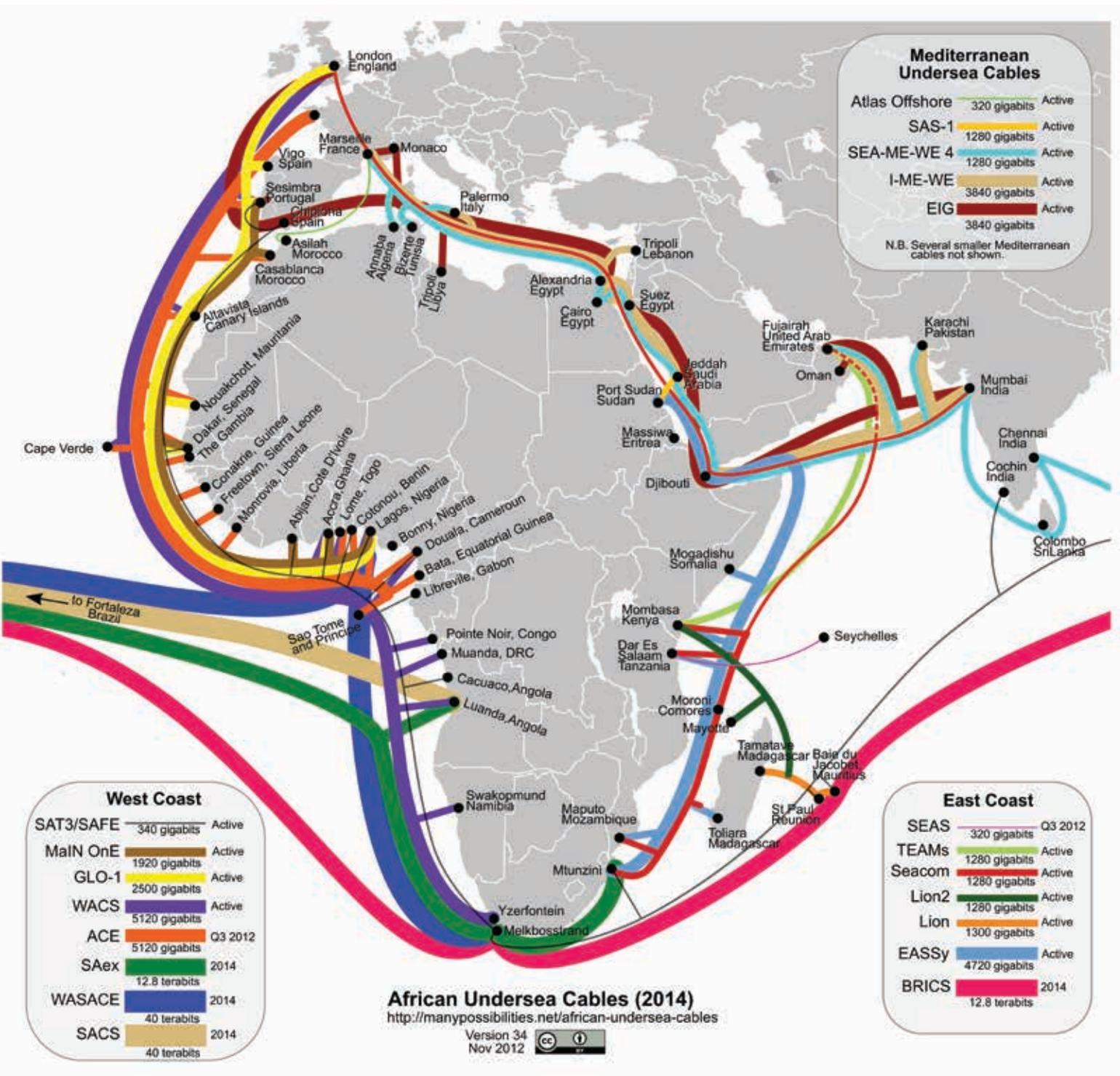


Figure 51: African Telecommunication undersea cables

PROPERTY COSTING OVERVIEW

Offices in South Africa are generally referenced as either "Premium" grade (P), "A" grade (A), "B" Grade (B) "C" Grade (C). The grades are explained as follow:

- Premium Grade (P) - Rentals between R150 – R200 /m² p/m, new developments, state of the art architecture, high rise or secure office park environment, good parking ratio, superior finishes, security and location
- A Grade (A) - Rentals between R100 – R140/m² p/m, modern office building, high rise or office park environment with good parking ratio, superior finishes and good security
- B Grade (B) - Rentals between R80 – R100/m² p/m, older properties with dated architecture and finishes often in need of updating. Low parking ratio usually 1 bay per 100 m² or less

Escalation on rentals

8% to 10% per annum

Lease rentals

8% to 10% per annum

Parking Bays

R1,000 to R1,300 per month/reserved single basement bay

Guide to cost: Electricity

R18 to R30/m² for office consumption costs

All figures exclude VAT.

Source: Baker Street Properties





APPENDIX 1

Glossary of Terms

Agent: An employee who handles customer interactions via various contact centre channels.

Annual Attrition: Voluntary resignation of full-time employees in a calendar year. This is calculated by dividing the opening Headcount at the beginning of year and closing headcount at the end of the year and multiplying the figure by 100.

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

BPESA: BPESA is the national association for companies operating in the Business Process Management (BPM) sector, also referred to as BPO/BPS, and operates as a specialist investment promotion agency as well as a trade association. BPESA creates an enabling environment for its members to network, share knowledge and collectively contribute to the success of the sector.

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

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

CBD: Central Business District.

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 BPM centre.

Impact Sourcing: Impact Sourcing is the socially responsive arm of business which purposefully participates in building an inclusive global economy, gaining business efficiencies while changing people's lives. Impact

Sourcing represents an opportunity to reach an untapped talent pool for companies interested in increasing their business efficiency, while also having a social impact on their communities.

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

Department of Trade and Sector incentive scheme: a scheme that subsidises foreign business in order to attract investment through the BPM sector.

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

KPI: Key Performance Indicator, measurements 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 used to assess efficiency, performance, progress, or quality of a plan, process, or product.

Net Promoter Score: It is a quality indicator which 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.

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

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

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

Outbound: Communications traffic that originates from agents to customers in a BPM operation

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

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 and works in conjunction with administration.

Tertiary Education – Tertiary education refers to education undertaken at a university or at a college.

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

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

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







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