SOFIA

OUTSOURCING INDUSTRY

December, 2017
investsofia.com
Table of contents

1. Introduction.................................................................................................................................4
2. Research Goal ...............................................................................................................................5
2. The role of the outsourcing sector in Sofia’s economy .................................................................6
   2.1. Outsourcing industry share in Sofia’s economy .....................................................................6
   2.2. Enterprise segmentation and demography .............................................................................6
   2.3. Investment Activity ...............................................................................................................8
   2.4. Export ...................................................................................................................................10
   2.5. Labour Market ......................................................................................................................11
3. Opportunities for development in the outsourcing sector in Sofia. ............................................13
4. Summary ......................................................................................................................................15
**Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>Employment Agency</td>
</tr>
<tr>
<td>BOA</td>
<td>Bulgarian Outsourcing Association</td>
</tr>
<tr>
<td>BIA</td>
<td>Bulgarian Investment Agency</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GAV</td>
<td>Gross Added Value</td>
</tr>
<tr>
<td>FTA</td>
<td>Fixed Tangible Assets</td>
</tr>
<tr>
<td>ITR</td>
<td>Income tax rate</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technologies</td>
</tr>
<tr>
<td>EAC</td>
<td>Economic Activity Classification</td>
</tr>
<tr>
<td>ME</td>
<td>Ministry of Economy</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Midium-Sized Enterprises</td>
</tr>
<tr>
<td>NSI</td>
<td>National Statistical Institute</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investments</td>
</tr>
<tr>
<td>AEW</td>
<td>Average Employment Wage</td>
</tr>
</tbody>
</table>
1. Introduction

Ten years ago, Bulgaria appeared on the outsourcing map and is now one of the leading countries, which attract international companies in the outsourcing sector. For the past couple of years Bulgaria was awarded with the price of the National Outsourcing Association-UK and became Europe’s top outsourcing destination in 2015.

Bulgaria ranks 15th in the Global Outsourcing Index, despite losing ground in the past few years, 9th place in 2014, which is due to insufficient workforce and the introduction of some business regulations.

The index Top destinations for outsourcing of business processes and shared service centers, ranked Bulgaria 7th among the 15 countries-pioneers in the outsourcing industry in 2016.

Currently, clients from Eastern Europe, North America and Asia, are serviced from centers in Bulgaria, belonging to industry-leading multinational companies. The three major countries, which outsource to Bulgaria are UK, USA, Germany. Among the success stories are companies like Proxiad Bulgaria, Sutherland Global Services, Sofica Group, Sitel, TELUS International Europe, A Data Pro, 60K, IBM and Hewlett Packard.

The outsourcing industry in Bulgaria is concentrated in Sofia. According to the latest data from the Bulgarian Outsourcing Association, over 90% of the outsourcing activities in Bulgaria are concentrated in Sofia. Lately, other cities like Plovdiv, Bourgas, Varna, have also started to attract companies from the sector.

Considering the dynamic growth in the sector and the two-digit increase in the employment, the Bulgarian Outsourcing Association (BOA) expects that the industry will surpass 1 billion euro in revenue by 2018. The outsourcing industry accounted for 3,6% of national GDP in 2016, with 3,4% in 2015 and 2,8% in 2014. (The numbers include the outsourcing of IT services).

The aim of this analysis is to research the current state and opportunities for business development for the BPO sector in Sofia. Added value analysis, investments, export and employment rates in the outsourcing industry in Sofia show the ever growing importance of the sector for Sofia’s economy and the economy of Bulgaria.

---

1 Emerging Europe, Econmin: Bulgaria – Number One Outsourcing Destination and an Island of Stability in Europe, 2016.

2 A.T. Kearney, “2017 Global Services Location Index”, 2017

3 Cushman & Wakefield, „BPO and Shared Service Location Index 2016


5 Investor.bg, Research (In Bulgarian) Инвестиции за устойчив растеж в аутсорсинг сектора, 2016

6 Bulgarian Outsourcing Association

7 Bulgarian Outsourcing Association
2. Research Objectives

Defining the boundaries of the sector has proven a major challenge. In practice, the economy is not divided according to the formal economic activity classification. This is especially true for relatively young sectors like outsourcing. In addition, many companies operate in more than one sectors, further complicating data collection.

For these reasons defining the subject of the research is of key importance.

Outsourcing is the export of specific function from a company to an external contracted third party for a significant period of time.

Despite challenges in defining the outsourcing sector, its expansion covers three main activities according to the economic activity classification:

1. Creation and distribution of information and creative services and telecommunications. (with referencing code J complying with CEA 2008) and more specifically:
   - J-62 Activities in the field of information technology
   - J-63 Information Services

2. Professional activities and scientific research (with referencing code M complying with CEA 2008)
   - M-69 Legal and Accounting services
   - M-70 Headquarters activities; management consulting
   - M-71 Architectural and Engineering activities; technical analysis and testing
   - M-73 Advertising and Market Research
   - M-74 Other professional activities

3. Administrative and Auxiliary activities (with referencing code N complying with CEA 2008) and more specifically;
   - N-82 Administrative offices services and additional office assistance.

This research focuses on the Professional activities and scientific research and Administrative and auxiliary activities (mainly 82.2 Call service center activities) in Sofia Municipality. This includes the outsourcing of the whole spectrum of business services – advertising, marketing, management, human resource, accounting and auditing, architectural and engineering services, customer service (incl. call centers), etc.

The sector of Creation and distribution of information and creative services and telecommunications, part of which is the IT sector, is not included in the research, as it is the subject of another research conducted by the Institute for Market Economy – Current state and development of the IT sector in Sofia Municipality (September, 2017). Research, conducted by the Bulgarian Outsourcing Association, shows that business services account for over half of the sector in the country, with IT services accounting for ¼ and knowledge management services for 1/10.

For the purpose of the current research Outsourcing sector in Sofia is defined as the sectors of Professional Activities and Scientific Research and Administrative and Auxiliary activities in Sofia.
2. The outsourcing sector in Sofia’s economy

2.1. Outsourcing industry’s share in Sofia’s economy

In 2015 services accounted for 85% of Sofia’s GDP, after the financial crisis caused the share of the industry to shrink by 10%, while the share of Farming and Agricultural activities continues to be close to zero. The reason behind the decrease in the share of industrial production in the city’s economy is due to the decrease in construction activities, which, from the standpoint of statistics, is categorized as industrial production. At the same time, several service sectors show resilience and have managed to increase their share in Sofia’s economy. Such is the outsourcing industry, which continues to increase its share of Sofia’s economy.

According to preliminary data, in 2016 the added value of the outsourcing sector in Sofia reached a record-breaking 2.2 billion BGN, or a 50% increase compared to 2011. Currently, the outsourcing industry accounts for 10% of the added value in the city, which places it among the top 5 industries in value-added. The share of the broad outsourcing industry, IT sector included, has surpassed 18% share of the local economy in 2015.

The total output of the sector surpassed 5 billion BGN in 2015. Total output remained at that level in 2016 and formed 9% of Sofia’s total output. Compared to 2011, the outsourcing industry has increased its output with 30%. For the past two years, companies have registered revenues in the excess of 5 billion BGN, which is an increase of ¼ compared to 2011.

The outsourcing sector in Sofia is diverse. All of its six subsectors have similar share of value-added, between 15-20% each, assuring its resilience to potential shocks in any specific industry.

2.2. Enterprise segmentation and demography

The share of micro-enterprises is the biggest in Sofia in terms of employment. Half of the employed in the sector work in micro-enterprises.

---

8 Value added is the gross value added of factor costs of non-financial enterprises.
With several major companies, entering or expanding their activities in Sofia, the sector is currently undergoing a consolidation. The number of companies with over 250 employees has increased from 11 in 2011 to 19 in 2016. The number of employed in companies with 250+ employees increased from 9% of all employed in the sector in 2011 to 18% in 2016, according to preliminary data. The biggest increase, with almost 4 thousand is registered in the Administrative office activities and additional servicing of market activity, which includes call centers.

Workforce distribution in the outsourcing industry between 2011 and 2016. Source: NSI

Still, the share of people employed in outsourcing companies with 250+ employees remains significantly lower than the average for other sectors of the economy, which was 25% in 2015. This can be attributed to the specifics of the sector. The majority of the companies, provide consulting services, which enables compact teams and using freelancers, making employment statistics more flexible.

Enterprise demography shows slightly different dynamics of birth/ death rates in the different outsourcing segments.

For example, in 2015, 845 or 30% of the newly-formed companies in the sector were in the Headquarter activities; management consulting and the lowest percentage was in Administrative office activities – 126 or 4%.

Other professional activities accounted for the highest percentage of insolvent companies - 888 or close to 30%. The least number of insolvent companies in the sector, 5%, were registered under Administrative office activities.

The only sub-sector, which had a higher number of insolvent than newly-registered companies was Architectural and engineering activities, technical testing and analysis. In 2015 the biggest growth in both newly-registered and insolvent enterprises compared to 2011 was in the sub-sector of Headquarters activities, management consulting.

The outsourcing industry in Sofia is also characterized by the significant growth in the number of enterprises. Between 2011-2015, the average growth in non-financial enterprises in all economic sectors was 7% on a national level and 11% in Sofia. The growth in the number of outsourcing enterprises in Sofia for the same period was significantly higher at 16%.

In 2016, the number of enterprises in the sector reached 24 000 or 20% of total companies in Sofia.
The growth in the number of companies in the sector between 2011-2016 was not equal for all sub-sectors.

The growth of companies registered under Headquarters activities, management consulting was close to $\frac{1}{2}$. In comparison, the companies registered under Legal and Accounting services and Administrative office activities have grown by only $\frac{1}{4}$.

Examples of major companies from the outsourcing business, which have set up in Sofia recently are: SXG (2010- business process management and customer service) C3 Customer Contact Channels (2011- analysis, management, consultancy) Scale Focus (2012- quality control, business process optimization), Concentrix services (2013- business process management, account management) American International Group (2014- business process management)

2.3. Investment Activity

The share of investment made in the outsourcing industry in Sofia has been growing for the past several years. Expenditure in tangible fixed assets and foreign direct investments has been growing since 2012, giving a substantial boost to production and subsequent revenues. A main factor was the market entrance and team expansion of companies like Ingram Micro and TELUS International in 2012.

Preliminary data for 2016 shows that investment in fixed tangible assets in the outsourcing industry in Sofia, amounted to 300 million BGN for the year. At the end of 2016, foreign direct investments have reached 1 billion euro, cumulative for the period 2000-2016.
As of 2011, the biggest growth in foreign direct investments - 170%, was registered in the sub-sector of Administrative office activities, and additional market services, which includes call centers. The reasons for this growth were the initial investment made by TELUS International in September 2012, as well as the new call centers of Sutherland Global Services, opened between 2008 and 2013, two of which are located in Sofia. Both companies are in a constant state of expansion, adding new clients and services. 60K is another fast-growing outsourcing company to set up in Bulgaria in recent years.

The American Ingram Micro has won the BOA price for investor of the year in 2012, after its initial employment of 120 people in their service center in Sofia, thus bringing together a wide spectrum of additional business processes. Architectural and engineering activities; testing and analysis has experienced the biggest growth in FDI - over 70 million euros, for the period in question.

In terms of investments in fixed tangible assets, the biggest increase, both in percentage and in absolute value has been in the sub-sector of Headquarters activities, management consulting with over 50% or 30 million BGN between 2011-2016. In 2017 Woodward Bulgaria and Tradeo BG have received their investment class A for an investment projects of 10 million BGN and planned 160 new jobs in Sofia.
2.4. Export

For the past 5 years alone, the export of services from the outsourcing industry has tripled. In 2016, the BGN equivalent of currency export revenues reaches 1.4 billion or 7% of Sofia’s total export. In 2011, the export amounted to 0.4 billion BGN and 4% of total export.

With 230% growth in export, the sector outpaced the average growth in export revenues for other sectors of the economy in Sofia, which was 100% for the same period.

All sectors included in the outsourcing industry have contributed to the raise in export revenues, however the lion share came from the sub-sector of Headquarters activities, management consulting with 400% growth.

Despite the fact that all sub-sectors in outsourcing are growing, their individual share has fluctuated throughout the years. For example, the share of Architectural and Engineering activities has declined from 20% in 2011 to 9% in 2016.
2.5. Labour Market

Employment

With the development of the outsourcing industry, the number of people employed also grew. In 2016 the number of employed reached 68,5 thousand or over 10% of total employed workforce in Sofia. Compared to 2011, there was an increase of 23% for the sector, compared to 8% growth for Sofia and 2% for Bulgaria.

The employment in outsourcing sector is relatively evenly distributed between the different sub-sectors.

With 14 000 employed, the Legal and Accounting activities is the biggest in terms of employment. The least number of employed was registered in Headquarters activities, management consulting. This sub-sector, however, demonstrated the fastest growth in number of employees, over 46%, compared to 2011.

As an example, Sutherland Global Services doubled its employees in 2014 by opening two new call centers in Sofia. This has had an impact on the data. In 2014 the employed in Administrative office activities and additional market servicing, including call centers, have registered a 22% increase, while the average increase for all other years in the period 2011-2016 was 11%.

In 2016 Unify Service Center began expansion of its service center in Sofia, with plans to open over 200 new jobs. After its initial investment in 2012, TELUS International had 450 employees. The number of TELUS employees in Sofia reached 2000 at the beginning of 2017 and around 500 in Plovdiv.

Education

A specific trait, which defines the sector is the high rate of employees with higher education. In 2016 the share of employees with tertiary education reached 80%. This explains to a degree the concentration of the outsourcing sector in Sofia, a city with high concentration of universities and other educational institutions. As a comparison, in 2016, the percentage of employed, who had a tertiary education was 32% for the country and 53% for Sofia.

The reasons behind the high share of the university graduates employed in the outsourcing industry are the specifics of the outsourcing industry and the fact that it does not require a large number of or low-level, support personnel.

Outsourcing companies, however, are increasingly employing people with secondary or lower education, due to the insufficient workforce in Sofia and the rest of the country. Data provided by Eurostat on companies, which report that they have limited their activities due to insufficient workforce, show that the problem, though most severe in industrial production, also exist in the A research conducted by ICT organizations in Bulgaria, demonstrates the lack of professionals in the following areas: management, sales and marketing, and insists on insists on educational reforms. The growing spectrum of services is another reason why companies aim at employing people with secondary degree, rather than university graduates.
In order to support the growth of companies, the Bulgarian Outsourcing Association, BASCOM and the ICT cluster, together with the Bulgarian Ministry of Education has launched a dual educational platform, which is aimed at providing skilled workforce.

Age

The employment rates per age in the outsourcing industry differs significantly from the average for the country. As in the IT sector, the outsourcing industry is characterized by a large share of young people employed. In 2016, the percentage of employed under 34 years was 38%, compared to 33% of the total workforce employed in Sofia. The share of the employed aged 55+ was 9% in the sector and 16% on average in all other sectors in Sofia.

Gender

The share of women employed in the sector is significantly larger than the share of men. In 2016, the sector employed 40,1 thousand women, which was 2/3 of the sector’s total labor force. As a comparison, out of the total number of people employed in all sectors of the economy in the country, men had a share of slightly over 50%.

The only outsourcing sub-sector where women’s share was under 50% was Architectural and Engineering activities, where the share of women employed was 49%.

The sub-sector with the biggest share of women employed was Legal and Accounting services with over 70%.

Wages and Salaries

Considering the dynamic growth and the skilled workforce employed, it is not surprising that the outsourcing industry provides above average net wages for Sofia.

In 2015 the average gross wage of the employed in the sector reached BGN 19,4 thousand annually, compared to BGN 14,5 thousand for Sofia.

Since 2011, salaries in the sector have risen with 32%, while the average wage increase for all sectors of Sofia’s economy was 29%. While the average salary on a national level increases mainly as a result of changes in the minimum wage legislation, salaries in the outsourcing industry increase due to market pressure and the sector’s expanding market share. Salaries in the sector, continue to grow despite the fact that more and more people with only secondary degree are employed.
3. Opportunities for development in the outsourcing sector in Sofia.

A continuing growth in the sector is expected in Sofia.

Bulgaria is one of the global leaders in outsourcing and Sofia’s economy has proven its ability to attract and grow new businesses in the sector.

The outsourcing sector in Sofia will continue to have a good basis for development due to the demographic and educational structure of Sofia’s population, as well as the overall economic development in the region and the competitive advantages over other capitals in the CEE and the Balkans.

Sofia’s population stands above the rest of the country in share of the workforce with university degree. The share of university graduates in 25-64 age group already exceeds 50% and is expected to continue to grow. In 2016, it was 51% in Sofia and 28% in the country. The share of people with primary education in Sofia reached its lowest point of 3% in 2016, while it was almost 18% nationwide.

Sofia is home to the country’s largest and most prestigious universities with over 100 000 students currently enrolled and 15 to 20 thousand graduates annually. Sofia is also the city with the highest number of graduates in IT and engineering degrees in Central and Eastern Europe⁹.

---

In addition, English learning in schools is close to universal. Ninety eight percent of secondary school students study at least one foreign language - most often this is English, and 73% of the students study more than one foreign language.

Bulgaria ranks 24th out of 72 countries in the world in English proficiency10 and had risen by two places in the last year alone. Despite the positive developments in education, the labor force shortage is deepening. The trend is most visible in manufacturing, but is affecting the service sectors as well.

The rate of job creation in outsourcing is significant. The job openings in the sub-sector of Professional Activities and Administrative auxiliary activities has increased with 400% since 2012.

The share of announced job openings in outsourcing, compared to all job openings in Sofia, has increased by 250% for the same period.

In the Professional activities and R&D sub-sector the announced job openings increased from 206 in 2012 to 549 in 2016.

The access to high-speed internet in Sofia has also played a role in the development of the outsourcing sector. Sofia is characterized by the one of the highest internet speed in Europe in both download and upload, with 17 and 10,8 mbps registered in October 2017.

The growing business activity in the city has resulted in an increase in the demand for office space. For the past five years (2011-2016) the total office stock, plus building permits issued in Sofia has grown five times, compared to two times on a national level.

A main challenge, which the outsourcing industry has to overcome in the coming years is the insufficient labor force. The negative demographic tendencies in Sofia are much slower than in the rest of the country. Sofia is one of the few regions in the country registering a population growth. The growth is due to a migratory, rather than natural increase, mainly of people from other region of Bulgaria moving to the capital. Sofia’s continuing ability to attract young and educated workforce will be a key factor, for the economic development of the city and the expansion in sectors such as IT and Outsourcing.

10 EF, English proficiency index 2017
4. Summary
The analysis of the development in the outsourcing sector in Sofia leads to the following conclusions:

- Bulgaria, and especially Sofia, have proved to be a major outsourcing destination on a global scale.
- The outsourcing was not affected by the financial crisis and has continued to grow in the years after. The share of the Outsourcing sector in Sofia’s economy has increased significantly.
- The number of outsourcing enterprises is growing faster than the average growth for Sofia.
- The sector has a high degree of diversification and equal development between sub-sectors.
- Recent years have witnessed a consolidation in the sector as large companies now account for 1/5 of total workforce employed in outsourcing activity in the capital.
- The share of investments (expenditure for the acquisition of fixed tangible assets and foreign direct investments) in the outsourcing industry in Sofia have been on the rise in recent years.
- For the past five years alone, the export of products and services from the outsourcing industry in Sofia has tripled and now amounts to 1,4 billion BGN or 7% of Sofia’s export revenues.
- 70 000 people in Sofia are employed in the sector.
- The sector is characterized by a significant share of employees with tertiary education, of women and of young people.
- Considering the rapid development of the outsourcing industry and the high share of employed with tertiary education, wages in the sector are 33% higher than the average for Sofia.
- The current analysis supports the prognosis that the sector will experience a continuous growth due to demographic and educational structure of the city, certain competitive advantages to other capitals in Eastern Europe as well as overall positive trend in Sofia’s economic development.
Contact us:
Investment & Business Development Department

contact@investsofia.com

Follow us

/SofiaInvestmentAgency
@investSofia
Sofia Investment Agency

December, 2017
investsofia.com