



Viffa Consult

BPO Market Opportunity for Kenyan SMEs

A Case of the Philippines

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Acronyms

BPO	Business Process Outsourcing
GDP	Gross Domestic Product
ICT	Information and Communications Technology
SME	Small Medium Enterprise.

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Introduction

SMEs in Kenya continue to face numerous challenges leading to their high mortality. The paper attempts to address two main challenges faced; access to market and reliance on unsuitable business model that are weak and susceptible to external shocks (mainly wholesale-retail). The paper offers alternative business through BPO services and highlight the potential thereof through comparative case study of the Philippines

The paper defines BPO, takes a deep dive of the BPO landscape of the Philippines, reviews Kenya's BPO topography and finally shares lessons Kenya can pick.

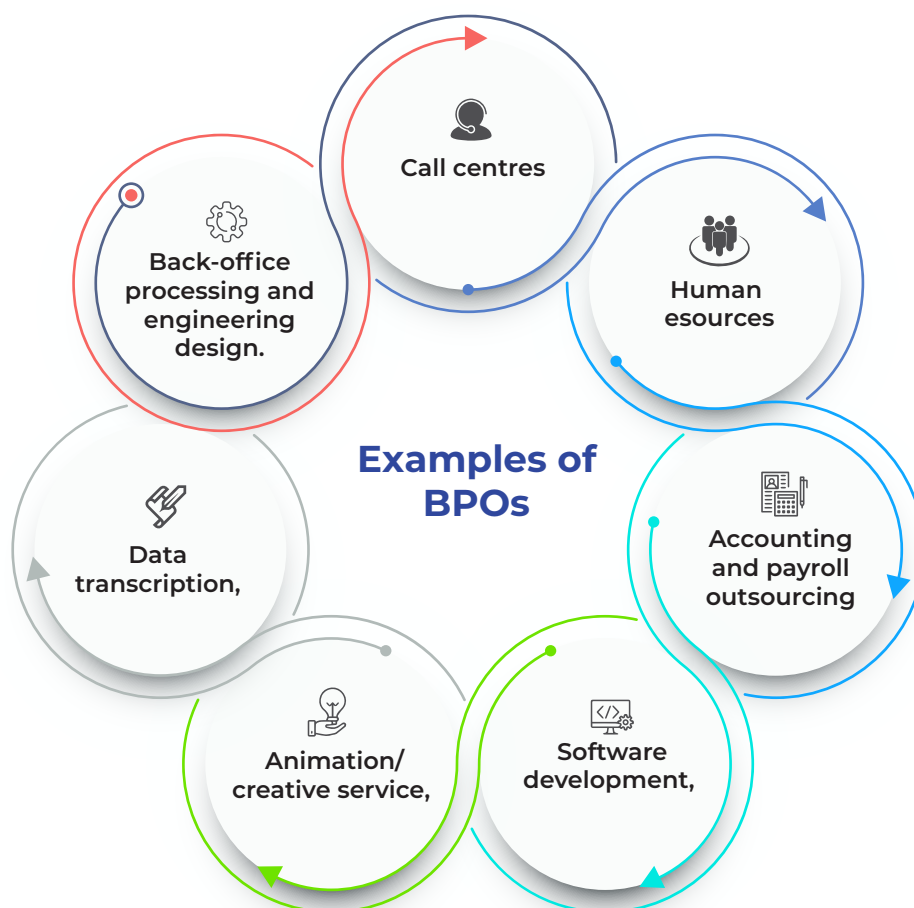
The paper espouses to expand the market horizon of Kenyan entrepreneurs as well as add to existent body of knowledge on SME policy discourse

What is BPO

Business process outsourcing is a process of hiring a third-party service provider that perform specific tasks and business operations that are traditionally done in-house.

The BPO agency can be within the local or national domain. However, it can also be offshore outsourcing where the office is anywhere else in the world.

The BPO model traces its roots manufacturing industry where Manufacturers hire third-party agencies to handle certain areas of the supply procurement and production process.



BPO Global Market Overview

The global market for outsourced services as of 2019 was 92.5 Bn USD (Statista 2021) with the lions share of revenue being generated in the America at 62 Bn USD.

India is among the leading countries for offshore business services due to; solid investment case , supportive policy and legal environment, abundant and skilled labour

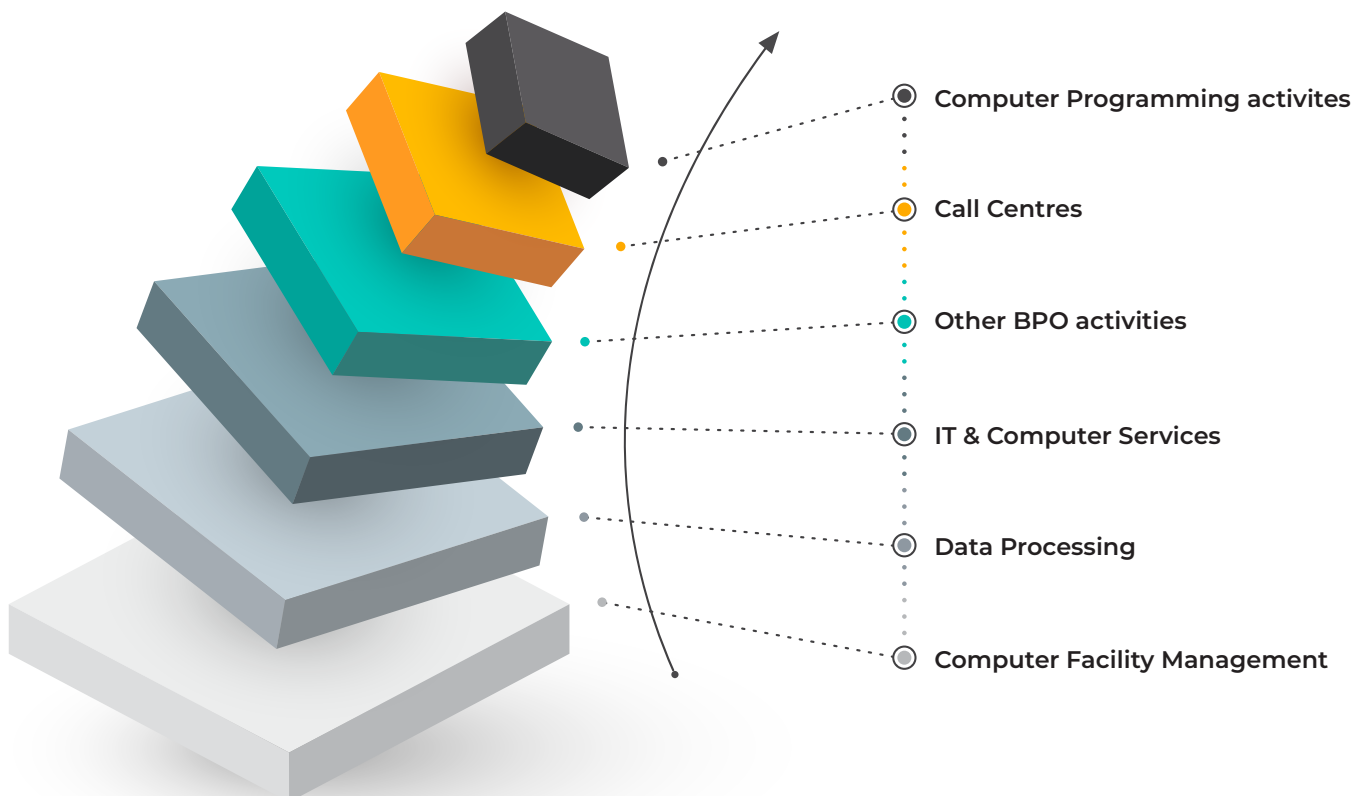
The Philippines

The Philippines BPO industry employs over 1.3 million people and generated revenue of 26.7 Bn USD in 2020 despite the devastating effect of COVID 19 and is estimated to grow to 29 bn in 2022.

NOTE: Philippines BPO revenue in 2020 is equivalent to 27 percent of Kenya's 2020 GDP estimated at 98 bn USD.

Quick snapshot BPO industry

Table 1 : Top BPO activities

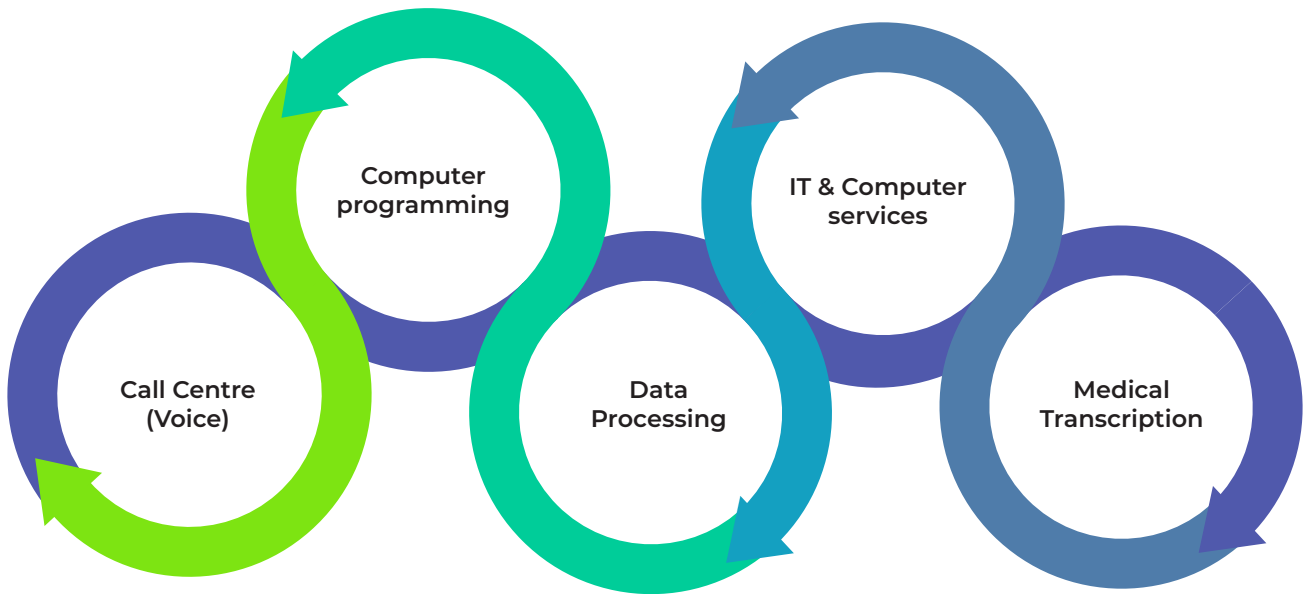


Source: Philippine's statistics Authority Analysis: Author

Insight

Computer programming activities lead the industry comprising more than a third of the total number of establishments with 523 (35.9%) establishments. Call centers activities (voice) followed with 511 (35.1%) establishments while Other information technology and computer service activities came in third with 101 (6.9%) establishments.

Table 2 : BPO Employment Distribution



Source: Philippine's statistics Authority Analysis: Author

Insight

Employment generated by BPO activities were reported at 455,643 in 2012. The bulk of the jobs were in call centers activities (voice), which employed 379,010 (83.2%) of the total BPO workforce. Establishments engaged in computer programming activities followed with 35,776 (7.9%) personnel. Data processing activities placed third with 25,848 (5.7%) employees.

Call centers activities (Voice) paid the highest total compensation accounting more than three fourths (78.2%) of the total compensation paid by BPO Activities. Computer programming activities placed second (12.7%). Data processing, ranked third (5.7%).

Employees in software publishing received the highest annual compensation per employee followed by workers in computer programming activities and computer consultancy and computer facilities management activities

BPO Set up

There are two major BPO business models adopted in the Philippines with the difference between them being approach to risk management, cost and preference in management structure (Full scale)

1. Captive Market
2. Third party Outsourcing

Captive market

Organizations use this setup when they need a more cost-effective model to run core business activities. It involves a long-term strategy and planning that requires a high level of managerial control. This enables the company to limit the risk of disclosing confidential and sensitive business information to another party.

There are two ways to utilize this business model.

- **Starting from zero Model** — The company builds its resources in the location of its operations. It means starting a new business and taking care of requirements with due diligence until the company becomes operational.
- **Build-Operate-Transfer Model** — A company works with a third-party service provider to open the business in the designated area. The provider has to take care of the requirements, manpower, and operations for a certain period of time. After the contract expires, the client will take over the management of its operations.

Companies that use the captive market model In the Pipelines include JP Morgan, American Express, Wells Fargo, and Capital One.

Third-Party Outsourcing

There are two types of third-party outsourcing utilized by the BPO industry in the Philippines.

- **Project-Based Outsourcing** — This setup is advantageous for activities that do not have a regular pattern or schedule. Its costing method typically involves computing the time and resources used to deliver the service or product.
- **Dedicated Development Center** — The setup is beneficial for companies who have long-term and specific requirements for the delivery of the product or service. A development centre is a common partner for companies developing software or any tech product.

BPO State of play in Kenya

Kenya identified the opportunities and potential of BPO and is enshrined in Vision 2030 economic pillar and captured under BPO/IT enabled services

Under the pillar the government intends to complete the first phase of the Konza Technology City which involves construction of BPO Park, Science Park, Residential Buildings, Data Centre and part of Central business District.

Further, the government of Kenya under Ministry of ICT, Innovations and Youth Affairs established The Ajira Digital Program to empower over one million young people to access digital job opportunities.

The program seeks to position Kenya as a choice labour destination for multinational companies as well as encourage local companies and public sector to create digital work.

Finally Kenya through special economic zone acts no 16 of 2015 established the Kenya Special Economic Zones Authority (SEZA) an institution responsible for attracting, facilitating and retaining domestic and foreign direct investments in Special Economic Zones (SEZs).

The Authority serves as the regulator of both public and private SEZs in Kenya and exists to create an enabling environment for investors through the development of integrated infrastructure facilities, as well as the creation of incentives that eliminate the barriers to doing business in Eastern Africa's most vibrant economic hub. ICT and BPO are some of the priority sectors identified under the authority.

Lessons For Kenya

Alignment of BPO Strategy- All BPO related initiative across government must be aligned under Vision 2030 to avoid redundancies and allow selection of most optimal BPO strategy combined with performance evaluation.

Establishment of BPO economic zone and Aggressive Marketing- The Philippines passed a Special Economic Zone Act in 1995 which created the Philippine Economic Zone Authority and provided tax incentives and lower area requirements for development. Due to these benefits, foreign companies were attracted to open an offshore office in the country.

Kenya has a similar function under the special economic zone authority. Kenya needs to aggressively target captive markets in Americas and Europe either through formal bilateral trade agreement or directly with industry in respective countries like what the Philippines has done through MOU facilitation with multinationals and local SMEs. Similarly, Kenya can leverage on its strong brand underpinned on horticulture, tourism, and athletics to cross sell BPO

BPO Specialisation- Kenya is grappling with unemployment as well as high poverty rates averaging 36 percent. Based on the Philippines PBO topography, the following BPO sub sectors can answer the jobs and poverty challenge in the short to medium term, call centre, computer programming and Data processing.

Kenya can harness its highly educated youthful labour that is proficient in English to tap into these three specialised areas. Based on Kenya's unemployment challenge, third party outsourcing may be the best bet as opposed to captive market model.

In the long term cognizant of advancement of artificial intelligence and de globalization as countries strive to create more jobs within their borders Kenya must align itself accordingly and invest in deep technology through both infrastructure as well as human capital through the education system.

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