SSC Benchmark Survey

Hungary, 2016

www.hoa.hu

Worldwide **reach**

providing

value added services

applying

innovative technologies

enabled by

experienced workforce

operating in a

steadily growing

market

Impressum:

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Hungarian Service and Outsourcing Association
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This is the fourth annual SSC Benchmark Survey of Hungary, carried out by the Hungarian Service and Outsourcing Association (HOA) to provide reliable, comparable industry data to its members and the investors considering entering the market.
The survey targeted all active captive service centers and outsourcing service providers in Hungary irrespective of their HOA membership. Besides the market data the survey serves as a benchmarking tool for the participants, allowing them to see their own results compared to other survey participants. As HOA conducted the survey for the fourth year in a row, comparison data of the 2013, 2014 and 2015 results are also published in this report.

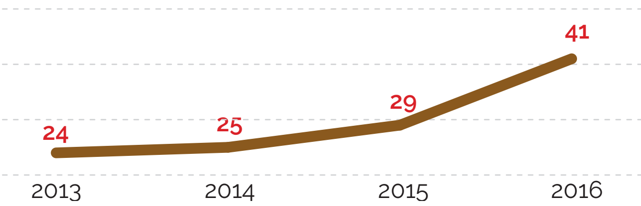
Attila Suhajda
President

„The 2016 figures verified the expectations that shared services are becoming ever more a crucial sector for the Hungarian economy and we expect the same trend for the future."

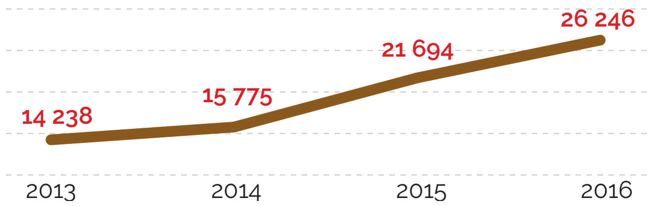
About the Participants

41 major Hungarian Shared Service Centers and Outsourcing companies have completed the survey employing more than 26.000 people. HOA has been able to increase the coverage of the survey by 84% over the past 4 years.

Number of Companies Participating In SSC Survey By Year



Number of SSC Employees at Participating Companies by Year

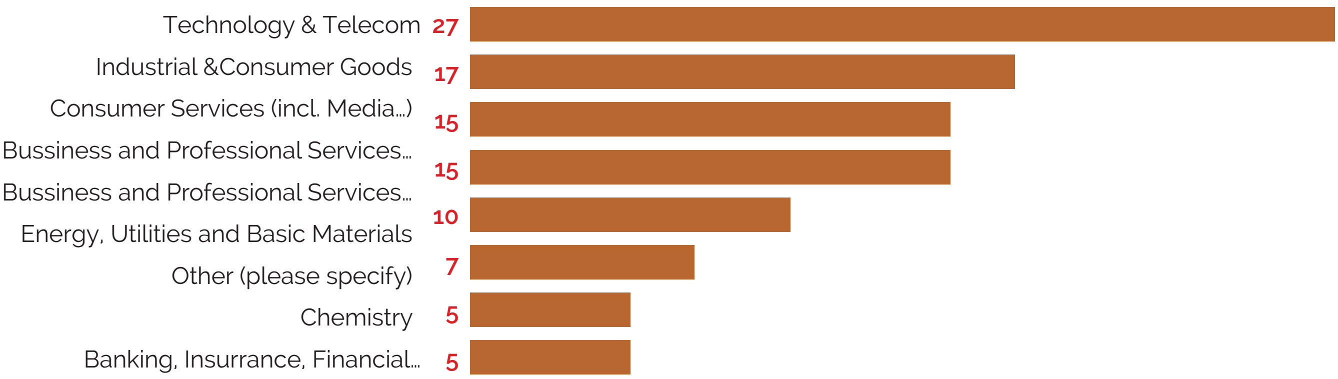


The growing number of survey participants and the accompanying rising employee coverage make the survey data more representative of the Hungarian market as a whole and reduces the number of assumptions required. However, as the structure of participants has changed over the years, some yearly comparisons should be used with caution.

SURVEY PARTICIPANTS BY INDUSTRY

In 2016, eight industries were represented out of which Technology & Telecommunications, Industrial & Consumer goods, Consumer Services and Business and Professional Services comprised the largest industrial sectors (74%).

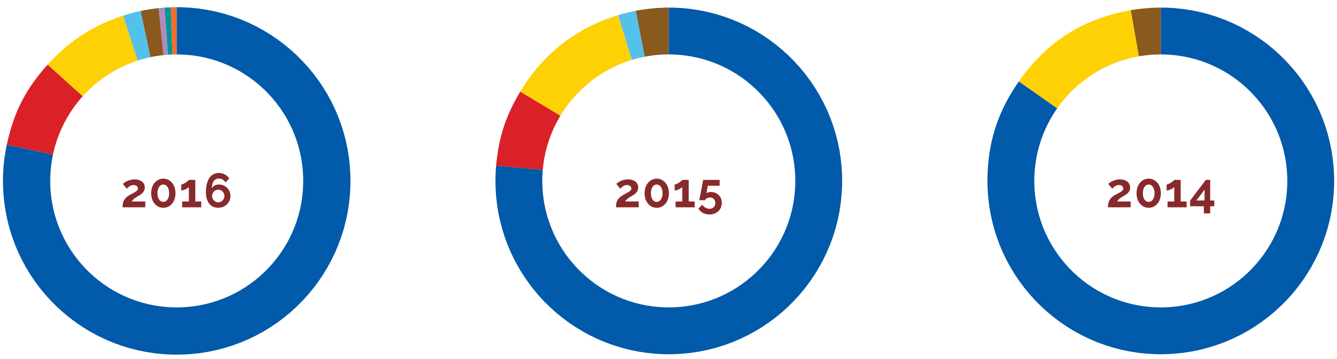
2016 Industrial Segmentation of Participating Companies (% of responses)



SURVEY PARTICIPANTS BY LOCATION

Participants employ altogether 26.246 people out of which 78% are located in Budapest, 8% in Debrecen, 9% in Székesfehérvár and 5% in other cities, like Veszprém, Tiszaújváros, Százhalombatta, Paks, Esztergom, Pécs.

Survey Participants by Location



	2016	2015	2014
Budapest	20560	16591	13371
Székesfehérvár	2250	1600	–
Debrecen	2150	2497	2000
Pécs	463	400	–
Other location	444	606	404
Tiszaújváros	142	–	–
Százhalombatta	137	–	–
Esztergom	100	–	–

26 246 Total survey headcount

21 694 Total survey headcount

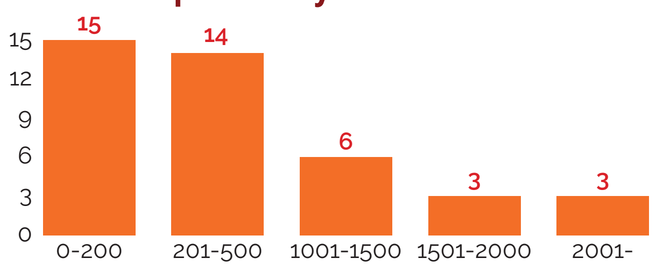
15 775 Total survey headcount

The Hungarian SSC market is still dominated by Budapest, 78% of the people are employed in Budapest, however, more non-Budapest locations are forming part of the Hungary service center map.

SURVEY PARTICIPANTS BY SIZE

The participants of the survey employ 630 people on average, 37% of firms participating employ 0-200 people, 29% employ more than 1000 people (11 SSCs), but these 11 service centers represent 75% of the FTE employed by the 41 companies altogether.

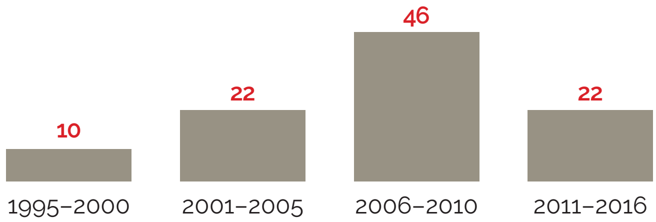
Number of Participating Companies by SSC FTE Size



SURVEY PARTICIPANTS BY START DATE IN HUNGARY

68% (28 firms) of participating companies started their operations after 2006, whilst 4 companies founded their operation in Hungary in the years of 1995-2000.

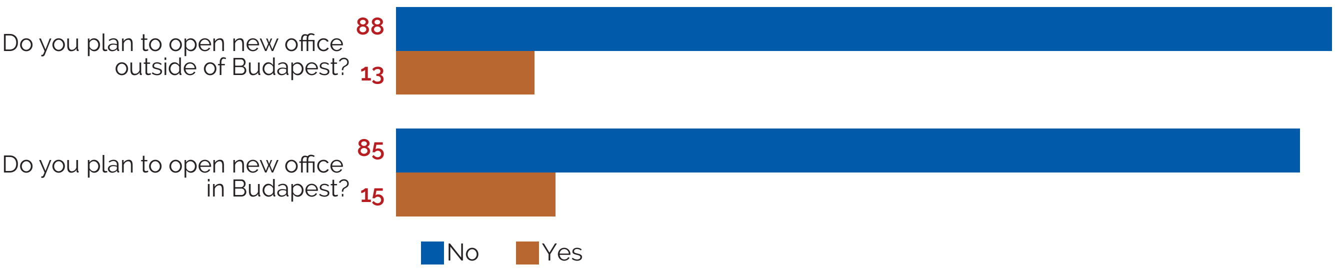
Date of SSC Operations Commencement by Survey Participants (% of responses)



SURVEY PARTICIPANTS' OFFICE SPACE

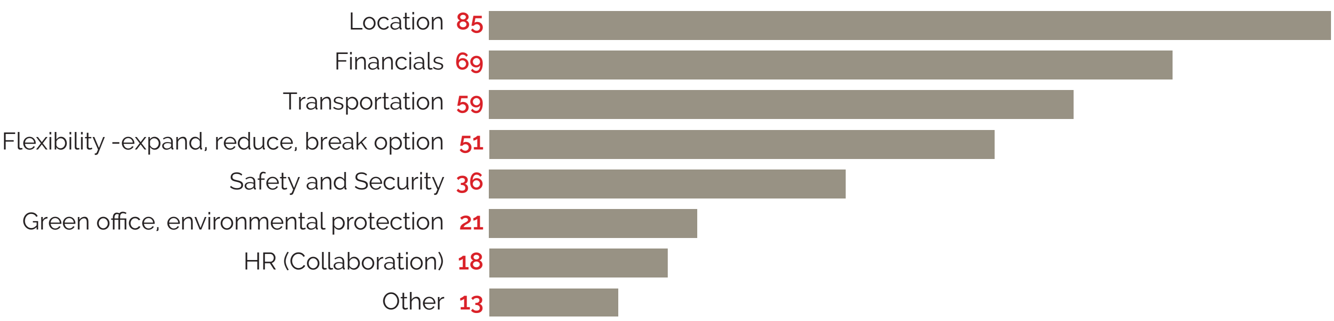
The participants occupy more than 200.000 sqm. office space, out of which 10 centers are planning to open additional office either in Budapest or in locations outside of Budapest.

Facility Development Plans for Participating Companies (% of responses)



85% of participants consider the location as the most important factor when making decisions regarding office space, but factors such as the cost, transportation, the flexibility of the contractual terms and safety are also key decision factors.

Factors Considered By Participant Companies When Selecting Offices (% of responses)

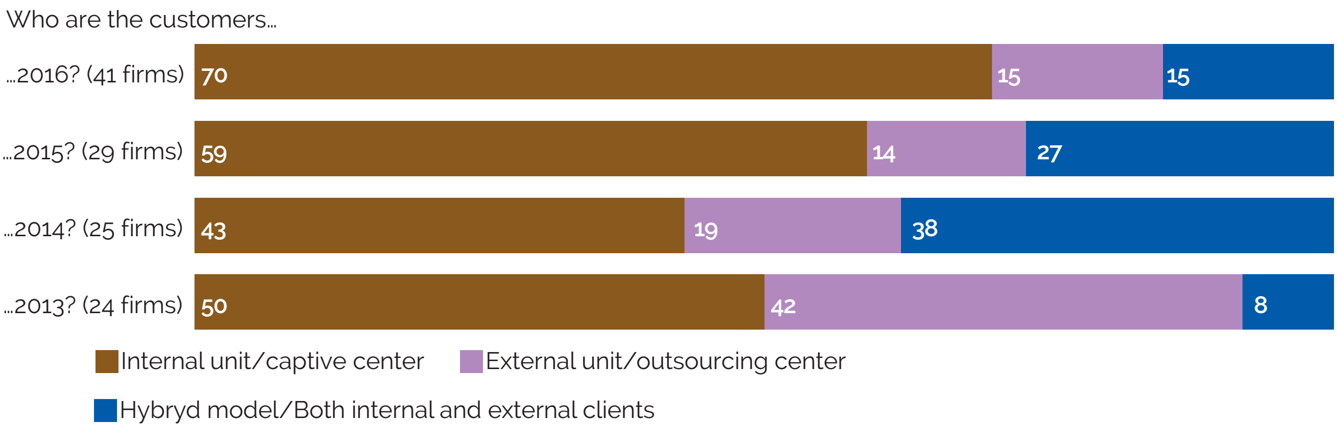


Supported Customers, Regions and Services

CUSTOMER PORTFOLIO

More than 70% of the companies participating are captive service centers, thus serving only internal customers - this is 10% higher than in 2015. In 98% of the participating firms there are Service Level Agreements in place to manage the performance of the SSC deliverables.

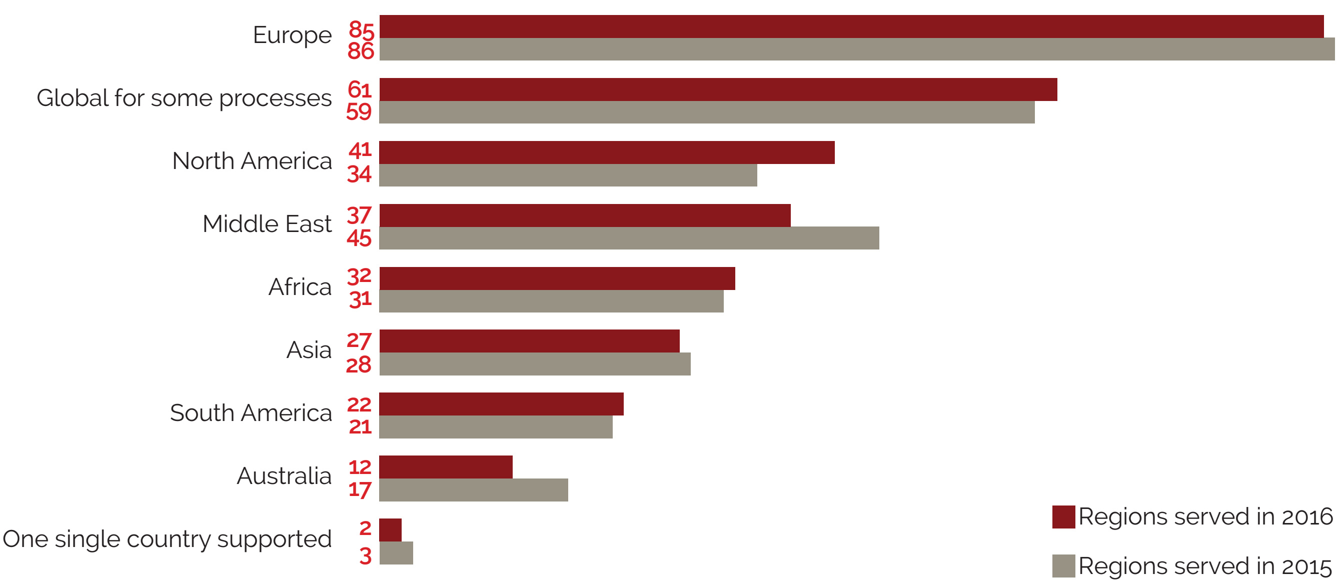
Annual Changes in Mix of Captive vs Outsourced Service Provision (% of responses)



REGIONS SERVED

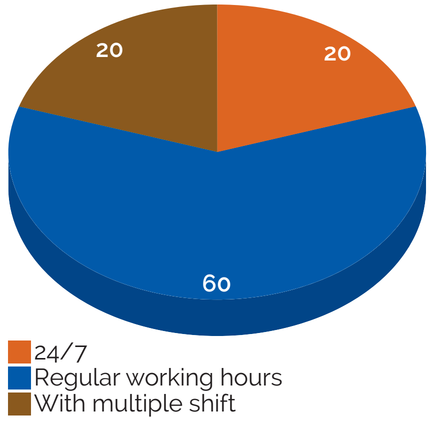
In terms of geographic reach, 61% of the participants service some processes globally, 85% Europe, 37% Middle East and 41% North America, more than 50% service Asia and Africa and despite the time difference even Australia is being serviced by 12% of the participants. The results are very similar to 2015, thus the same observation can be made than last year: **the Hungarian SSC market still can be considered as a global service location and not only as a Europe time-zone center.**

Geographic Regions Served By SSCs 2016 vs 2015 (% of responses)



One of the consequences of the regional setup is the introduction of shifts. Hungary's location is favorable considering that the Americas region and Asia can be reached during Central-European regular working hours, thus in 2016 60% of firms decided to use regular working hours only. The use of shifts is influenced by the types of services provided; for example, customer service & IT support requires greater flexibility via service hours versus standard administrative functions such as invoice processing or general accounting transactions.

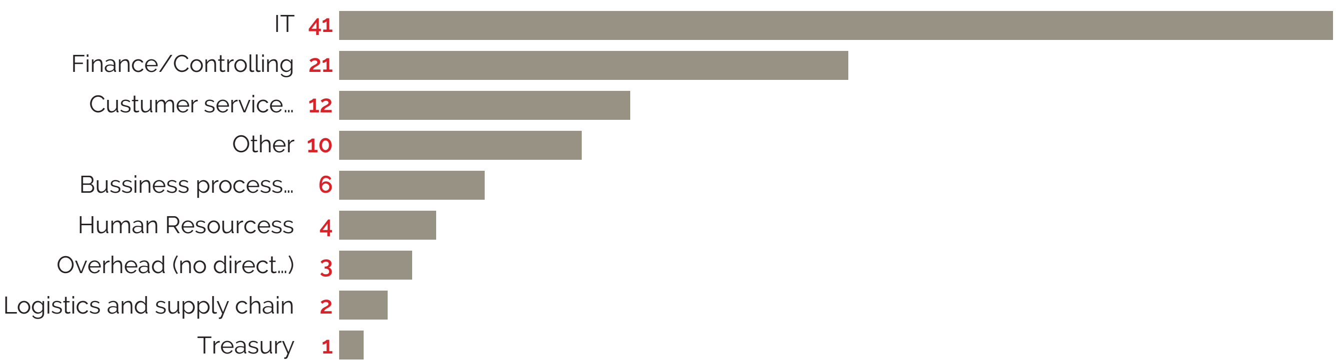
Service Delivery Hours of Participant Companies (% of responses)



SERVICE PORTFOLIO

In 2016, 74% of SSCs provide services in the area of Finance and Controlling, IT and Customer Service. This gives a good indication of the professional skill requirements of this sector; finance and business administration and IT are still the key skills required, with the requirements shifting towards IT skills.

Service Portfolio of Participants Companies (% of responses)

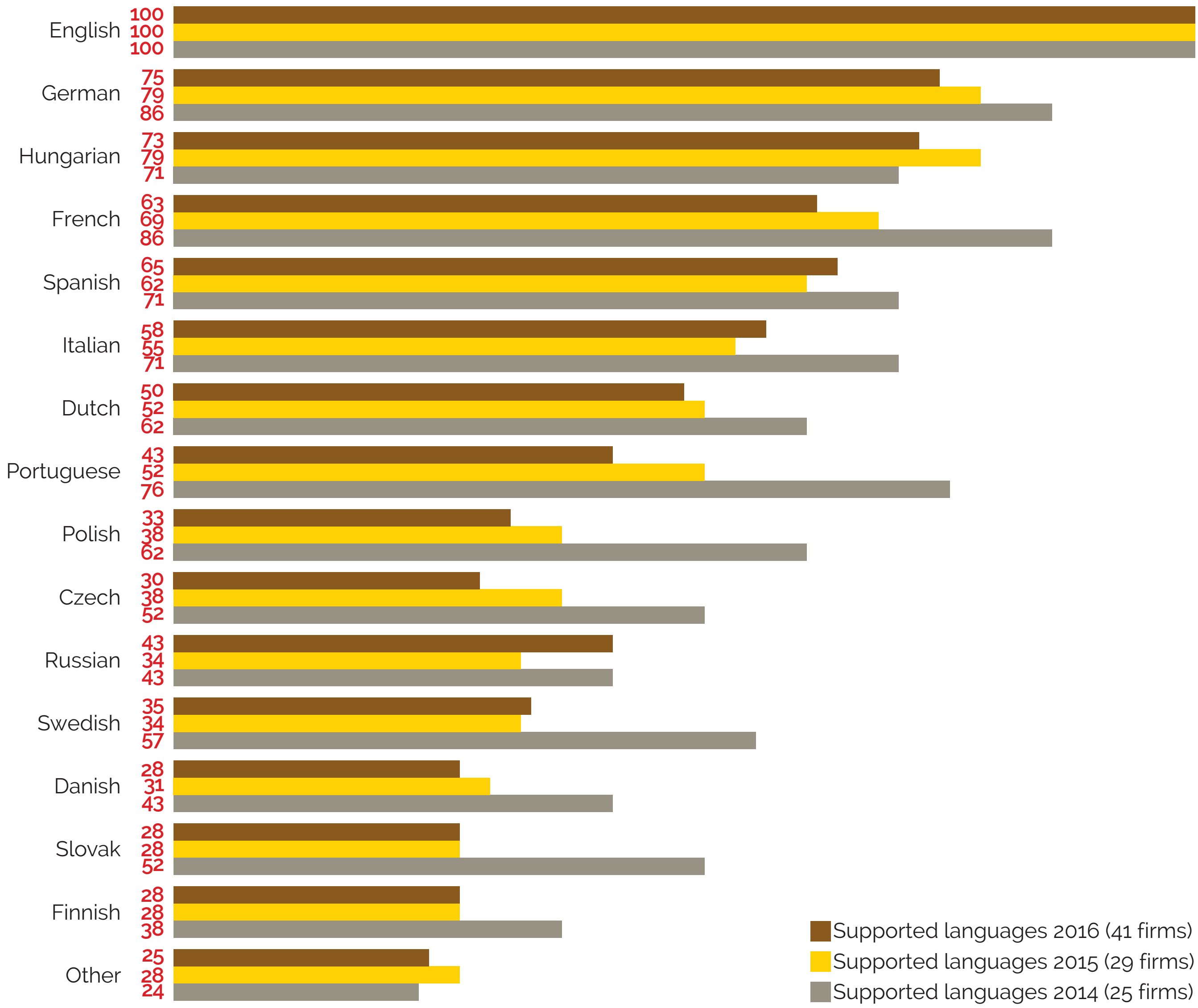


Considering the geographical reach and the services provided by the service centers, along with professional skills, language capabilities are crucial to maintain stable operations in Hungary and the ability to host increasing numbers of centers in Hungary.

LANGUAGES SUPPORTED

In 2016, more than 20 languages are supported by Hungarian services centers. The most commonly supported languages in order of frequency are: English, German, Spanish, French, Italian, Dutch, Russian and Portuguese. As the survey also shows, HOA is emphasizing again the focus on language education in all levels of the education programs. This is vital to maintain the SSC industry in Hungary. English is still a 'must' in all service centers; German is still the second most important language as in 2016. French, Spanish, Italian, Dutch and Portuguese are still in top 10, however Russian and Swedish increased, with Polish and Czech dropping out of the top 10.

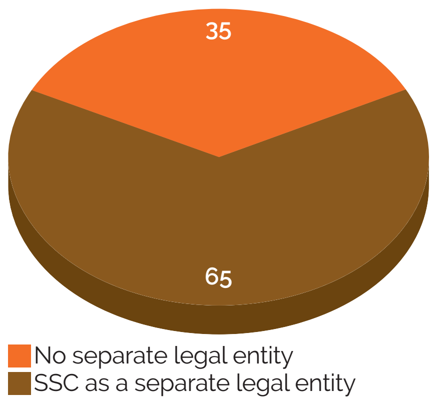
Service Delivery of Participant Companies By Language 2016 / 2015 / 2014 (% of responses)



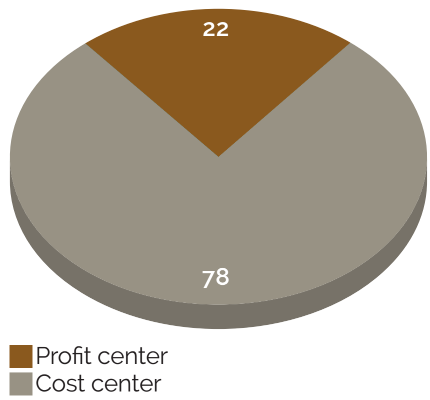
LEGAL AND FINANCIAL MODEL

In terms of the legal form of the SSCs in Hungary, there have been some changes compared to 2015. Companies still prefer to establish a separate legal entity for their shared service operations with 65% responding that their SSC operates in a separate legal entity, whilst 35% of companies incorporate the SSC together with their other operations.

Legal Entity Form for Participating Companies' SSCs (% of responses)



Financial Delivery Model of Participating Companies' SSCs (% of responses)



The cost center based concept of settlement seems to be still typical in the Hungarian SCC industry, 78% responded that they run the service center as a cost center.

Service Center Strategies in Hungary

GROWTH POTENTIAL

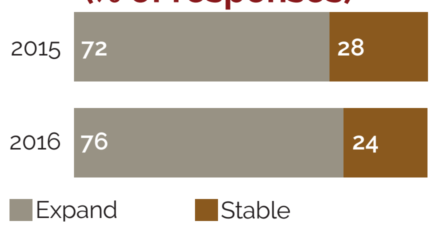
Growth has continued in the past year, with 73% of the participants (30 SSCs) reported the transfer of new activities to their SSC in Hungary. The services transferred were financial services (46% of participants), HR and IT.

Services Transferred into the SSC in the Past Year (% of responses)

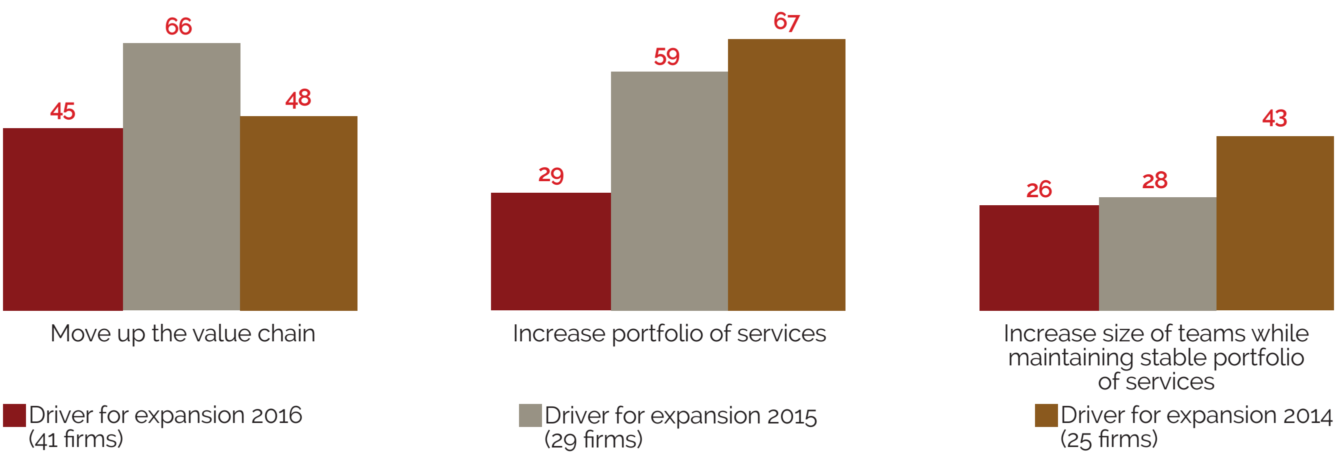
The growth potential of the industry has been collected in the survey. 76% of the participants plan to expand their operations (31 firms); none of the participants are planning any reduction. These trends are similar to 2015. The aggregate increase planned by the participants is 1,600 people, arising from 20 firms' responses (6 firms responded with 0% increase, and 5 firms did not answer this question).

The expansion is planned to come primarily from providing higher value-added services (45% of participants).

Development Outlook for Participating Companies' SSCs (% of responses)



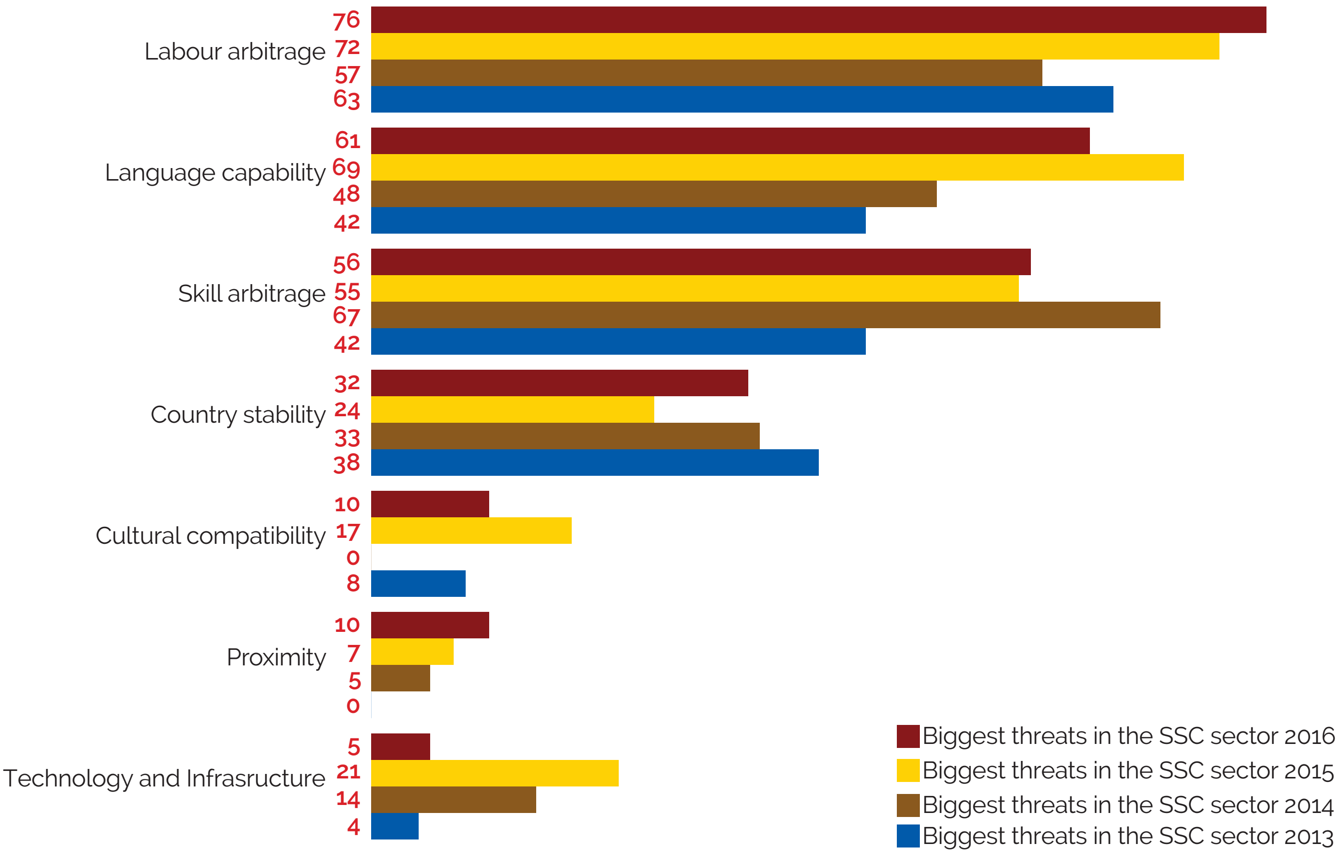
Service Expansion Plans for Participating Companies' SSCs (% of responses)



COMPETITIVENESS FACTORS

Country advantages and competitiveness factors have also been examined in the survey.
The participants identified four major risks, ranked in the following order: labor availability, language capability, skill availability, and country stability. Labor related concerns increased compared to 2015 with 76% of participants seeing labor as a clear issue (this was 57% in 2014 and 72% in 2015) and 61% consider language as a threat (this was 48% in 2014 and 69% in 2015). 32% of the participants mention country risk among the biggest threats to the industry and this is a marked increase versus 2015 (24%). Furthermore, the country risk factor has seen the biggest increase in the 2016 threat statistics. Skill availability is identified as a threat in more than 50% of the participating firms - the same proportion of responses as per 2015.

Threat Assessment By Participating Companies (% of responses)

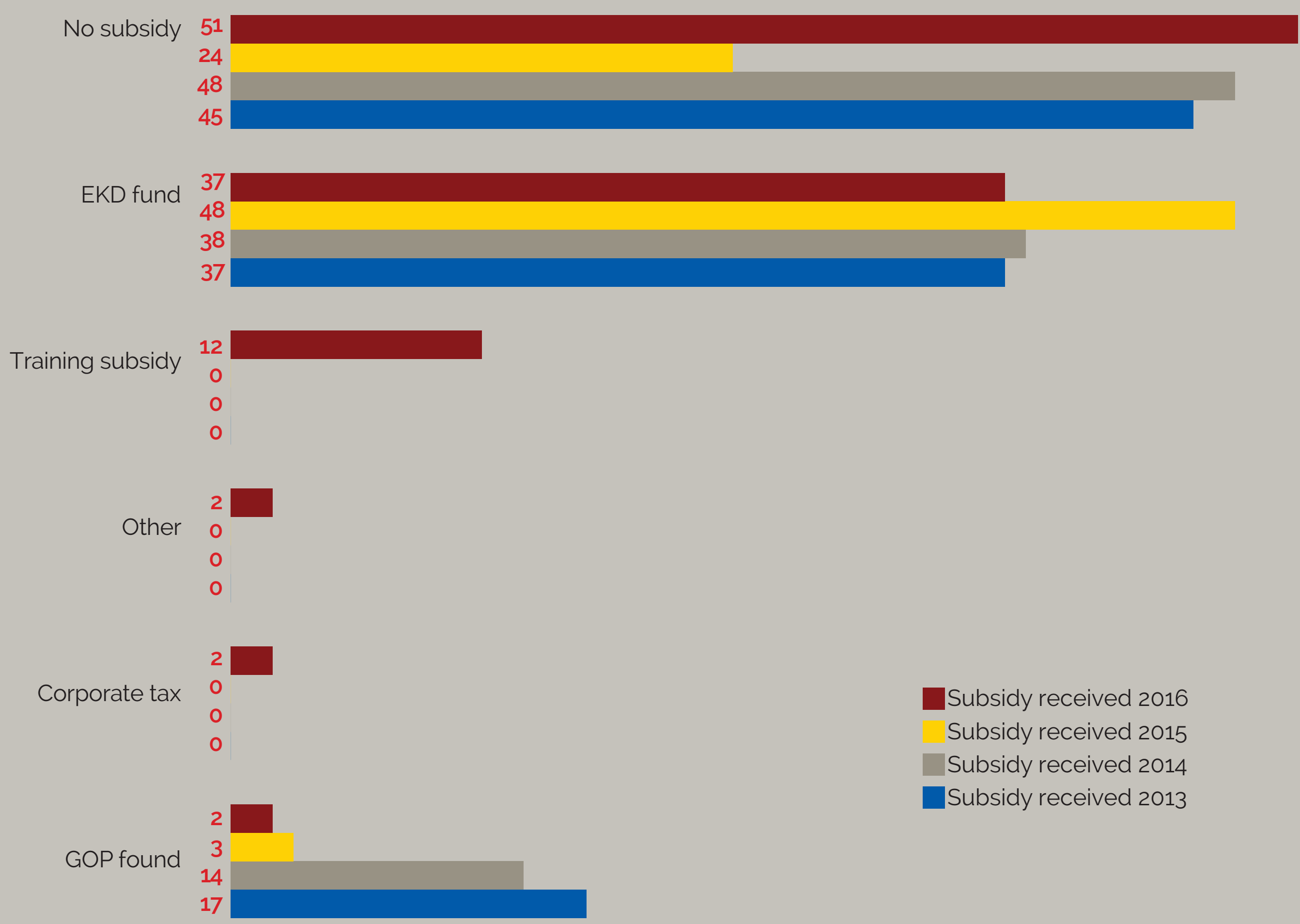


Selection Criteria Determining Hungary as Location for SSC Activities (% of responses)

INDUSTRY SUBSIDIES

With regard to subsidies, 51% of the participants did not take any subsidies, which is a significant change compared to the 24% reported in 2015. EKD and GOP funds utilization decreased as well, but some additional elements such as the training subsidy and corporate tax subsidy arose as a separate element.

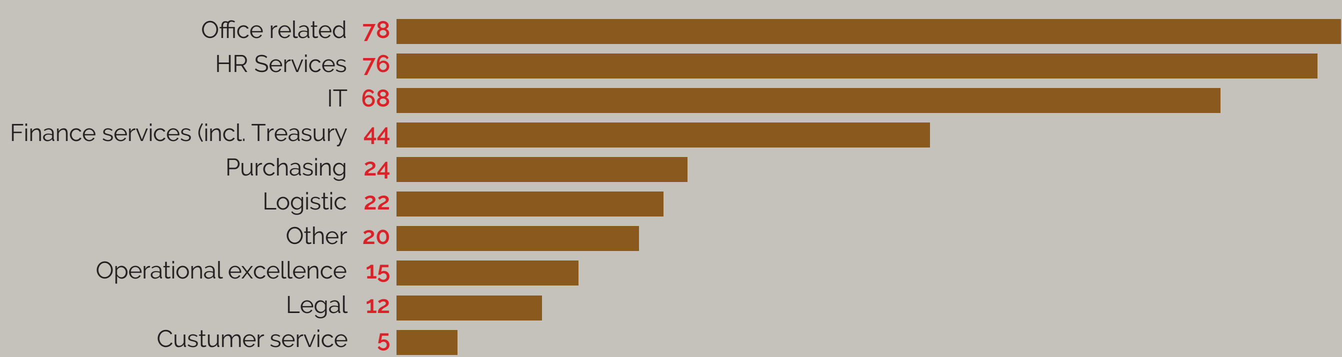
Receipt of Industry Subsidy By Participant Companies (% of responses)



SERVICES PURCHASED FROM HUNGARIAN SUPPLIERS

100% of the participants utilize Hungarian suppliers. The formulation of the question has been refined throughout the years to receive more relevant answers.
The most common services SSCs use Hungarian suppliers for are Office expenses, HR, IT, Finance services and Purchasing.

Procurement of Services From Hungarian Companies by Participating Companies (% of responses)



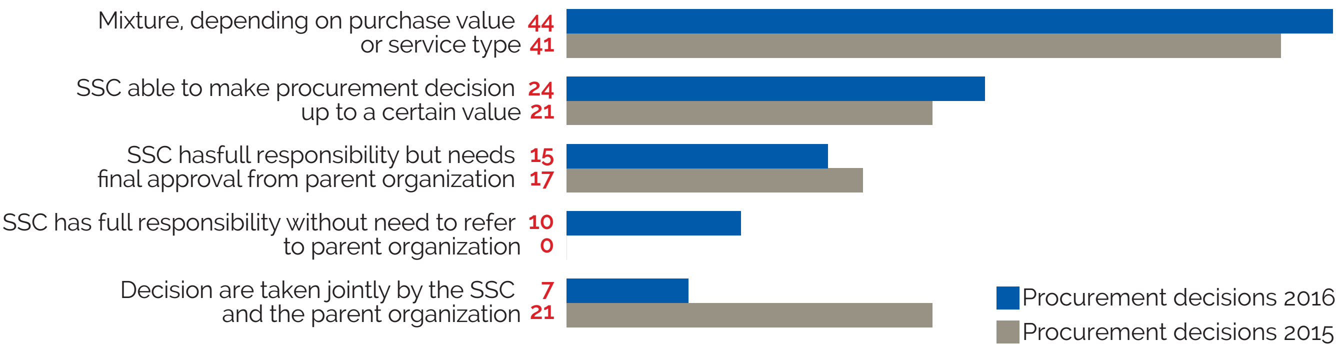
EXPENDITURE AT HUNGARIAN SUPPLIERS

In terms of spending, 49% of respondents (17 firms) spend more than 200 million HUF per year. By estimating average spend in all categories, then the responding firms spend more than 4 billion HUF yearly on Hungarian suppliers.

Spend Ratio on Hungarian Suppliers By Survey Participant Companies (% of responses)

This is supported by the fact that SSCs are able to make procurement decision either with full responsibility or jointly with the parent organization.
Thus the conclusion may be drawn that local suppliers and local branches of international firms have good opportunities to become suppliers to shared service centers in Hungary.

Procurement Decision Making Authority of Participant Companies' SSCs (% of responses)

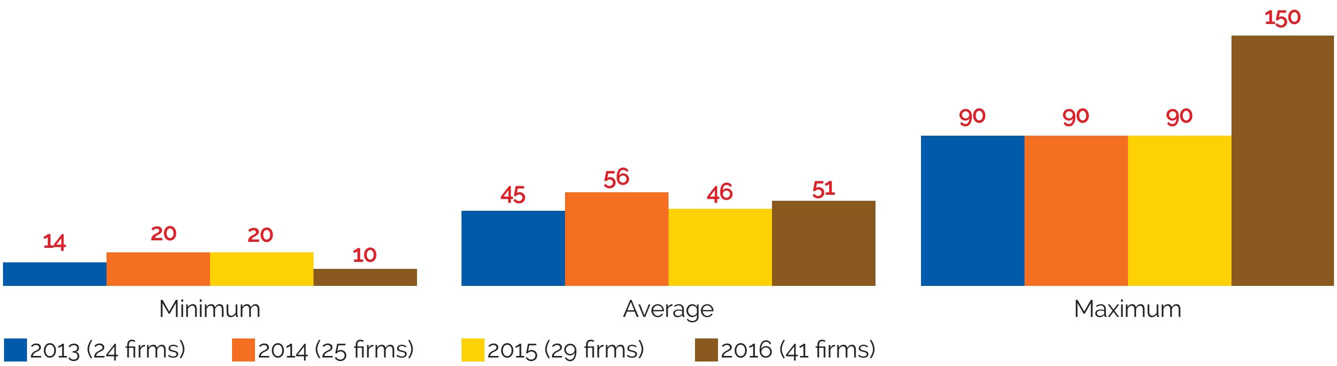


People Processes, HR Indicators

RECRUITMENT LEAD-TIME

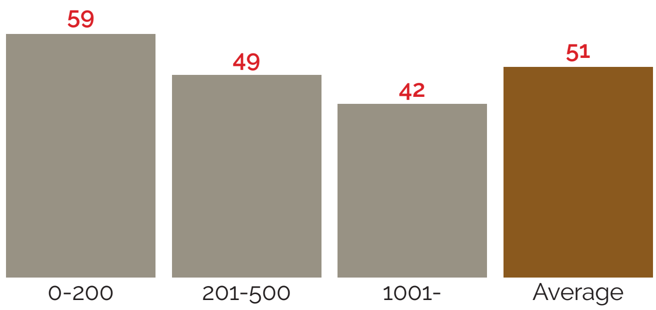
The average recruitment lead-time is 51 calendar days, which increased from 46 days in 2015.

Recruitment Leadtime (days)



The average recruitment lead-time is much lower in the large-sized SSCs (42 days), whilst the lead-time is significantly higher than average in the smaller centers. Larger organizations have more expert HR and recruitments services, marketing capabilities and university relations, thus more tools to attract applicants to the center. Recruitment lead-times are costly, thus organizations would be well advised to build up expert recruitment services and manage brand awareness.

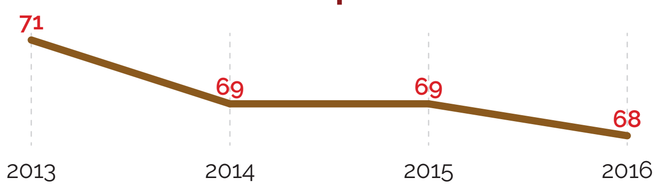
Recruitment Leadtime by SSC FTE Size of Participant Companies (days)



EMPLOYEE ENGAGEMENT

83% of participants utilize engagement surveys in their people processes. The average score of 68% is similar to scores from 2014 and 2015 (both at 69%).

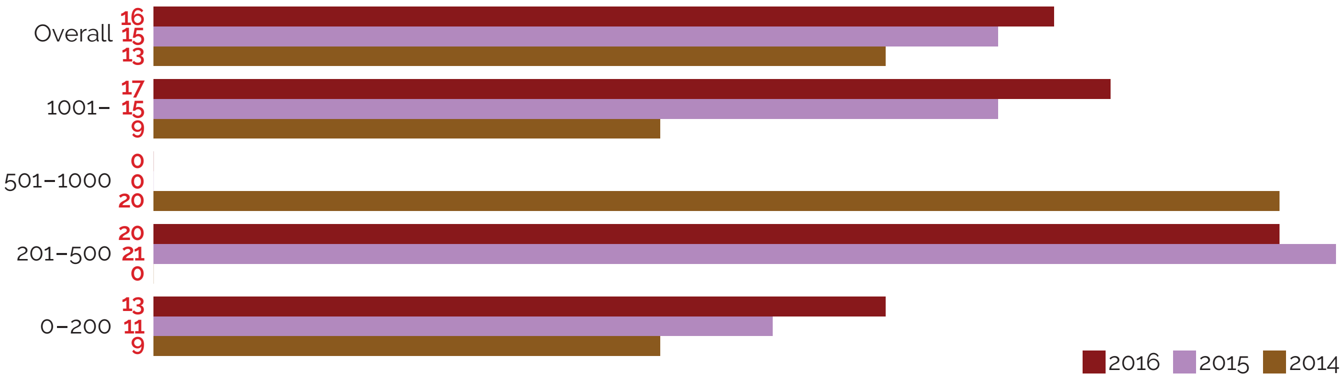
Average SSC Employee Engagement Percentage By Year (% of responses)



ATTRITION RATE

The voluntary attrition rate is 16% in 2016 amongst the participating companies, and this is similar to data from 2014 and 2015, although the trend is clearly increasing. The attrition rate increased to 17% in the 1000+ FTE category. The lowest attrition rates are still found in the small size shared service centers. (13%).

Employee Voluntary Attrition By Size of SSC and By Year (% of responses)



Differences could be identified in 2015 when analyzing the attrition rates from the SSC type perspective. In outsourcing firms vthe average attrition rate was 20%, while in captive centers 14%. These differences cannot be observed in 2016 with the attrition rate similar in outsourcing and captive centers.

EMPLOYEE CHARACTERISTICS

We have analyzed the workforce from many perspectives. Language skills have been already covered in previous sections of the survey. As the skilled and language speaking workforce is getting more and more difficult to recruit, alternative channels are now being examined by centers. Recruiting from abroad was always an option; the foreign citizen ratio is on average 9% in service centers, unchanged from 2015. Due to the labor availability challenges experienced on the market, the trend is to recruit more employees without university degree. The ratio of employees not holding university degree increased from 21% to 26%. This shows as well the importance of language and service culture training to be introduced to intermediate education levels.

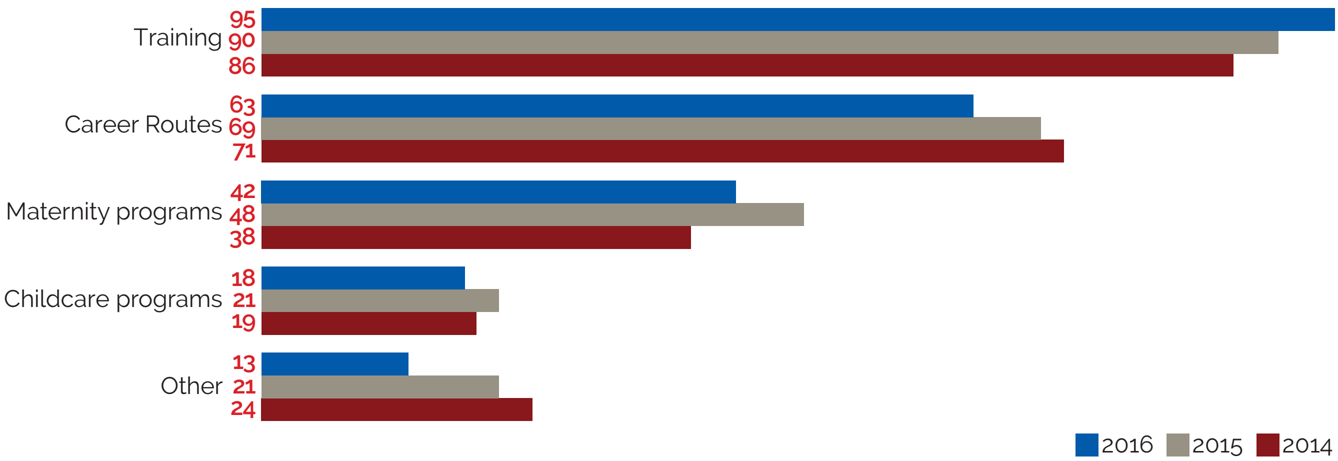
Education & Foreign Citizen Analysis of Participating Companies' SSCs (% of responses)

This trend is supported by the fact that 79% of participants provide education support to employees, thus employers are ready to take over part of the education in order to secure employee development. Further to the education support, the SSCs also invest in internal training programs and on average 2,5 training days are provided monthly to employees, in part utilizing e-learning platforms in 85% of participating firms.

EMPLOYER BRANDING

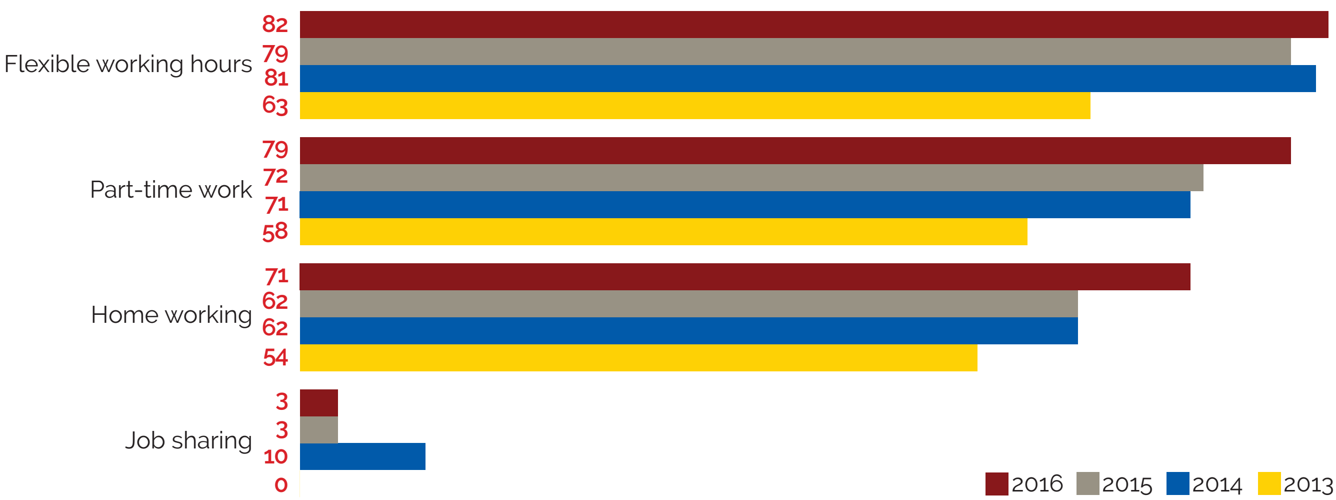
95% of participating companies are using some kind of branding programs to support motivation and aiming to be seen as socially responsible employers. The following tools are among those being used; sport, company events, language courses, talent programs, CSR, health and safety, environmental initiatives, community buildings and cultural activities. Most of the employers (95%) provide some training programs, nearly 63% are working on structured career routes and 42% of the employers provide maternity programs.

Employer Branding Tools Deployed By Participating Companies' SSCs (% of responses)



As part of the corporate branding programs, many companies have implemented flexible employment options. Home working, part-time work and flexible working hours increased in 2016, with companies offering home working up to 71% from 62%. More than 80% of the participating companies utilize flexible working hours. Companies have commented that utilizing home working and part-time work in turn assist them in office space optimization. Employment of parents with young children or employees with disabilities is another area of focus for some companies.

Flexible Working Arrangements Operating At Participating Companies' SSCs (% of responses)



SALARY INCREASE

In terms of salary increase, no major difference can be recongnized in the past 3 years. In 2015 the average salary increase by participants companies was 3%, the same as was reported in 2016.

UNIVERSITY RELATIONS

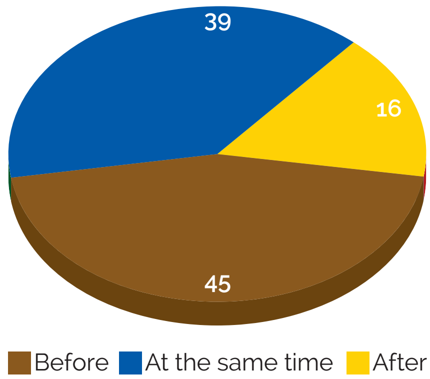
As the recruitment of the skilled and language speaking workforce is time consuming (on average 51 days), and due to the fact that more and more service centers are entering the market and existing are centers expanding, companies start the actual recruitment process already at universities by utilizing numerous type of relationships and channels. 50% of participants have active university relations, the most typical channels are to have dedicated lectures, running graduate or specified training programs, having company open days, sponsorships or laboratory programs with selected universities.

University Relations (% of responses)

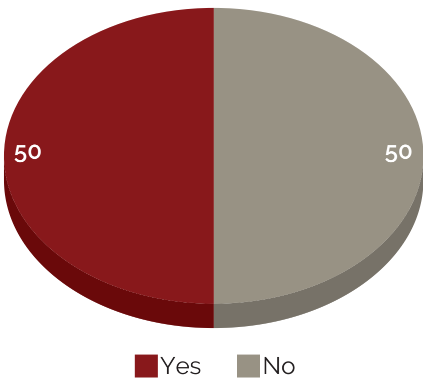
Technology

Gaining efficiency from shared services is influenced by the optimization of the underlying technology. To be able to realize SSC benefits, 84% of organizations participating in the survey transformed their technology backbone prior to or at the same time as they moved processes into a shared service center (similar to 2015: 81%).

Transfer Processes to SSC Before, During, or After Technology Change (% of responses)

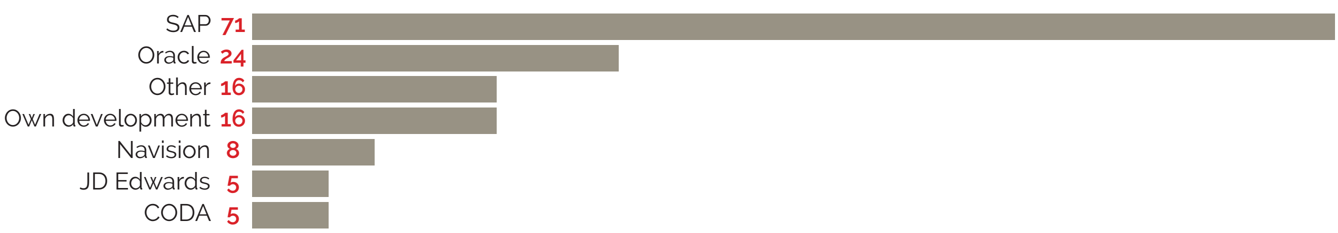


All Major Steps of E2E Processes Managed by One Integrated ERP System in All Countries (% of responses)



Administrative processes are technology-dependent and despite the fact that a significant proportion of the benefits that can be gained from process centralization arises from using integrated ERP solutions, 50% of participants companies still do not use one single ERP instance in all countries. This is however a clear decrease compared to 2014, where 65% of the participants were not using one ERP instance.

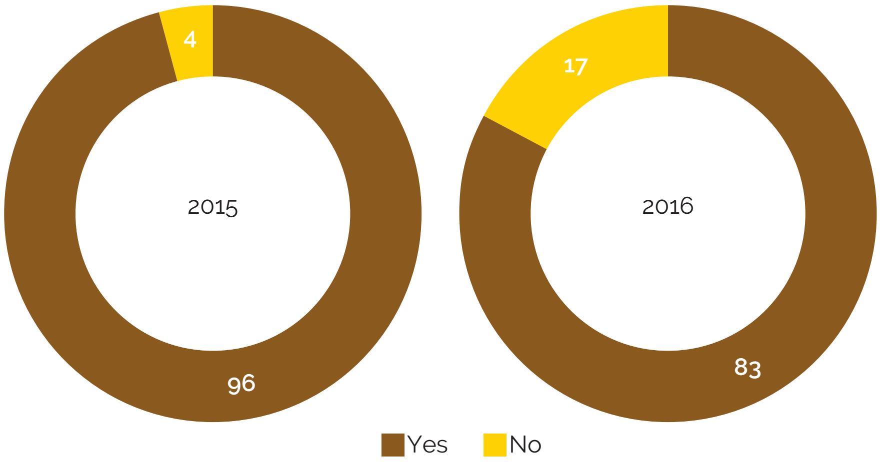
ERP Sytems Used By Participating Companies (% of responses)



24% (36% in 2015) of the participants are using Oracle and 71% SAP (same as in 2015), with other systems such as JD Edwards, CODA and Navision being used in other companies.

83% of participants reported the use of a ticketing system to manage queries, (although a decrease from 96% in 2015) and the most commonly used systems are Remedy and Service Manager. Nearly 40% of participants have invested in the development of an in-house solution. This was the same situation in 2014 and 2015 and the trend is unchanged.

Deployment & Use of Ticketing Systems 2016 vs 2015 (% of responses)



Ticketing Systems Used By Particpating Companies' SSCs (% of responses)

About HOA

The Association's mission is to promote the country's economic development by supporting the business services sector, through spreading opportunities to increase efficiency offered by organizational innovation, in particular the concept of outsourcing.

The Association acts according to the interest of the outsourcing sector and its Members.

HOA offers professional support and representation for organizations undertaking business service activities in Hungary. These companies are:

- Shared service and knowledge centers (SSCs) and their suppliers
- Companies offering outsourcing services and their suppliers
- Companies offering knowledge-based services

WHAT IS THE ADVANTAGE OF BEING A HOA MEMBER?

HOA is an open professional association where we are indeed working in favor of the sector.

- We're working to continuously improve the industry environment for our Members in the area of legal, human resources, training, economy, fiscal operating conditions such as the background for the simplification of the employment-law.

- We support our Members' business and professional presence with the services HOA provides: we' re organizing events / conferences, operating business forums to promote market cooperation, as well as bringing together customers and suppliers.

- We carry out cross-border marketing and lobby activities in the interest of the Members providing services abroad.

- We contribute to the Hungarian service industry's international recognition and the growth of the industry with our active presence and our support to outsourcing opportunities.

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