dynamic growth

HOA
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complex services

global reach

SSC Benchmark Survey

Hungary, 2015

great talents

Impressum:

The survey was conducted by:
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In cooperation with the **Hungarian Investment Promotion Agency**

This is the third edition of the 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 third year in a row, comparison data of the 2013 and 2014 results are also published in this report.

Attila Suhajda

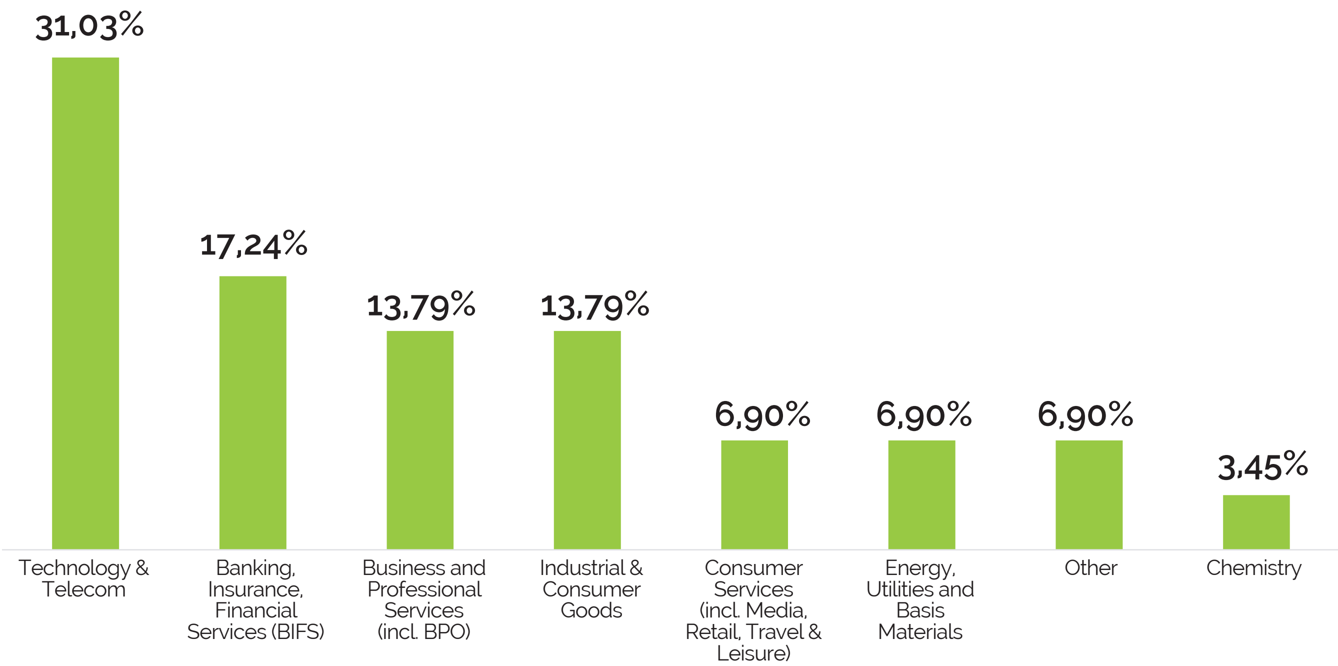
President

„HOA's survey shows that the Hungarian SSC sector has become a strong pilar of the Hungarian economy and a solid contributor to the job creation in the country."

About the participants

29 major Hungarian shared service centers and outsourcing companies have completed the survey. 7 industries were represented out of which technology & telecommunications; banking, insurance and financial services; business & professional services (including BPO); and industrial & consumer goods took the biggest stake (76%).

SURVEY PARTICIPANTS BY INDUSTRY



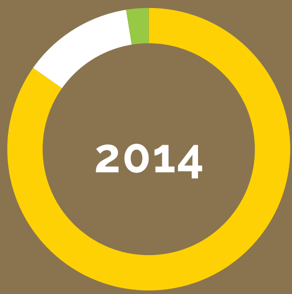
Participants employ altogether 21.694 people out of which 76% are located in Budapest, 12% in Debrecen, 7% in Székesfehérvár and 5% in other cities, like Veszprém, Tiszaújváros, Százhalombatta and Paks.

HEADCOUNT BY LOCATION

- Budapest **(11 793)**
- Debrecen **(1 735)**
- Other locations **(710)**
- Székesfehérvár **(—)**
- Pécs **(—)**

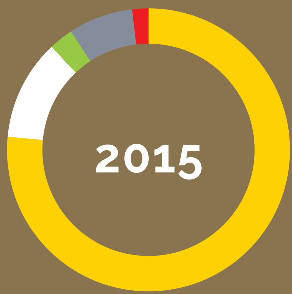
14 238
Total survey headcount

- Budapest **(13 371)**
- Debrecen **(2 000)**
- Other locations **(404)**
- Székesfehérvár **(—)**
- Pécs **(—)**



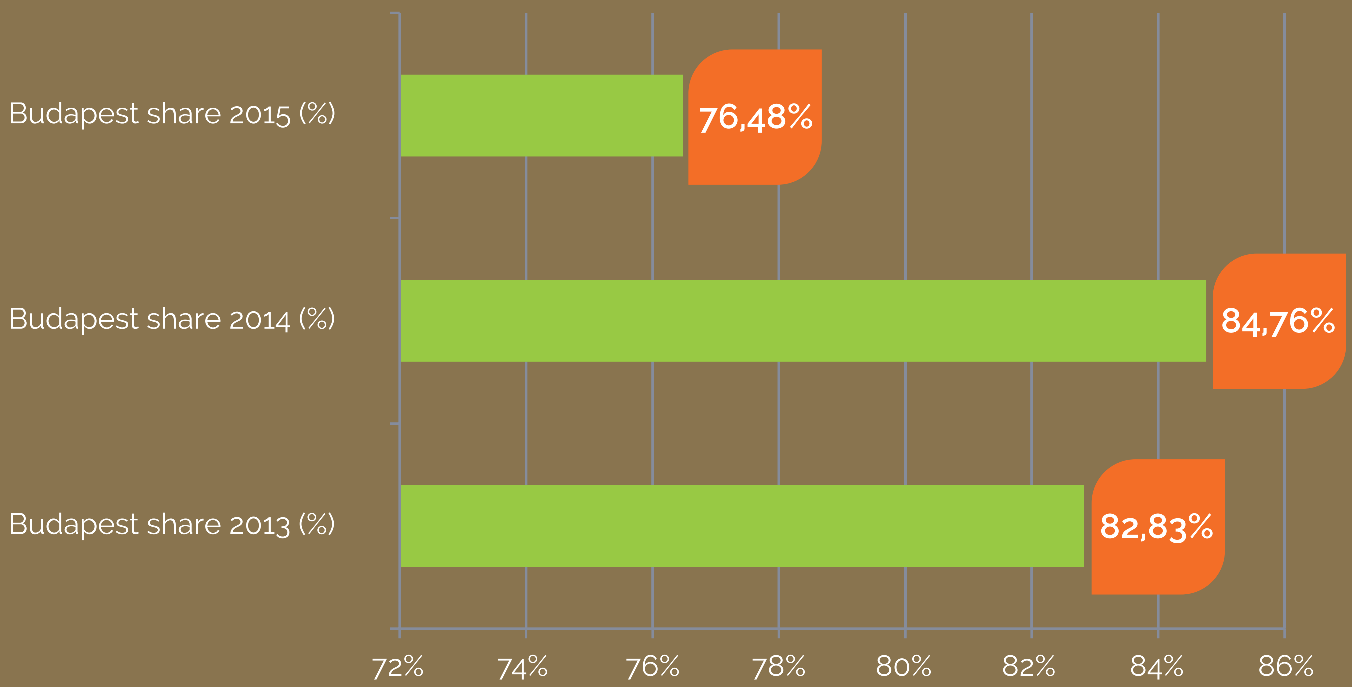
15 775
Total survey headcount

- Budapest **(16 591)**
- Debrecen **(2 497)**
- Other locations **(606)**
- Székesfehérvár **(1 600)**
- Pécs **(400)**



21 694
Total survey headcount

The Hungarian SSC market is still dominated by Budapest, 76% of the people are employed in Budapest, however more and more other locations are getting on to the center map of Hungary.

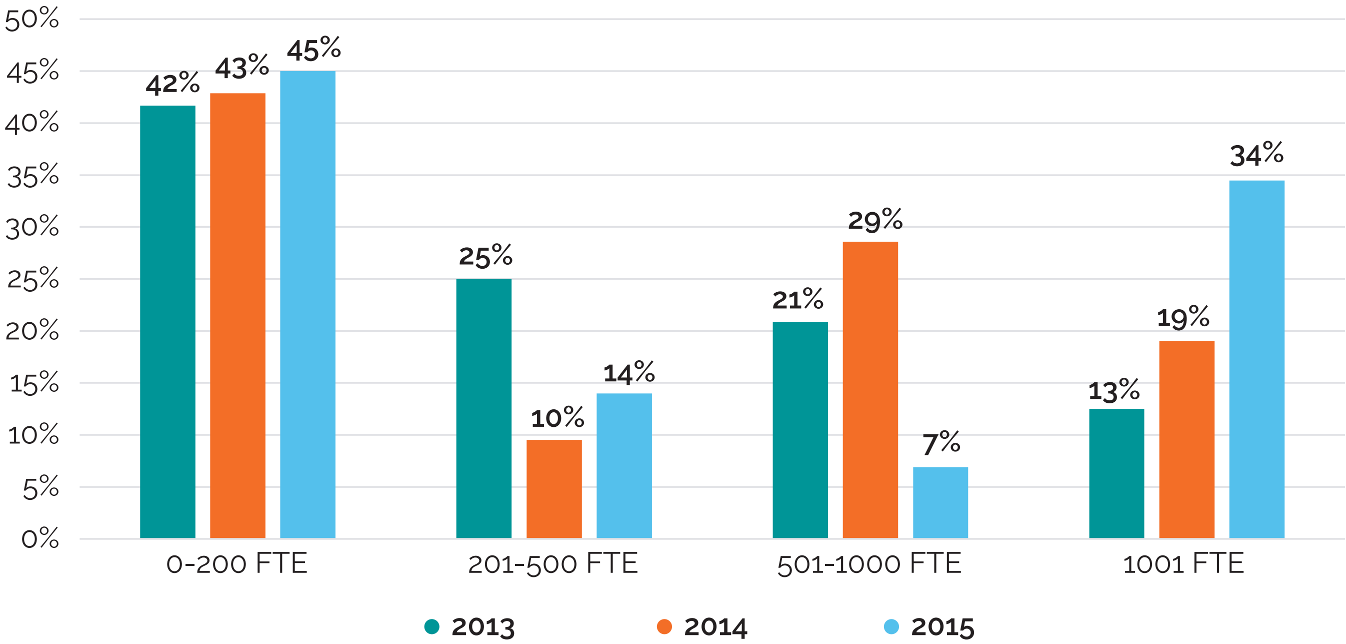


SURVEY PARTICIPANTS BY SIZE

Participants of the survey employ 750 people in average:

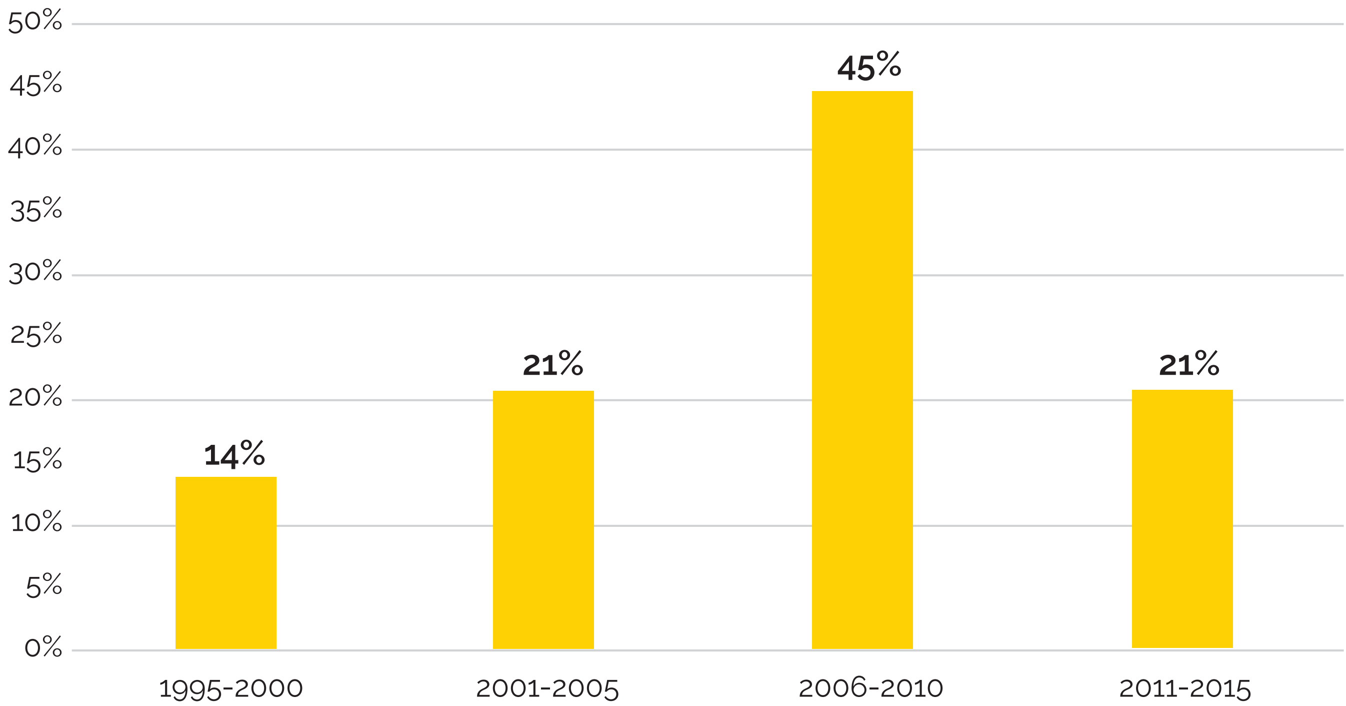
- 45% employ 0-200 people
- 34% employ more than 1000 people (10 SSCs)

These 10 service centers represent 81% of the FTE employed by the 29 participating companies.



SURVEY PARTICIPANTS BY START

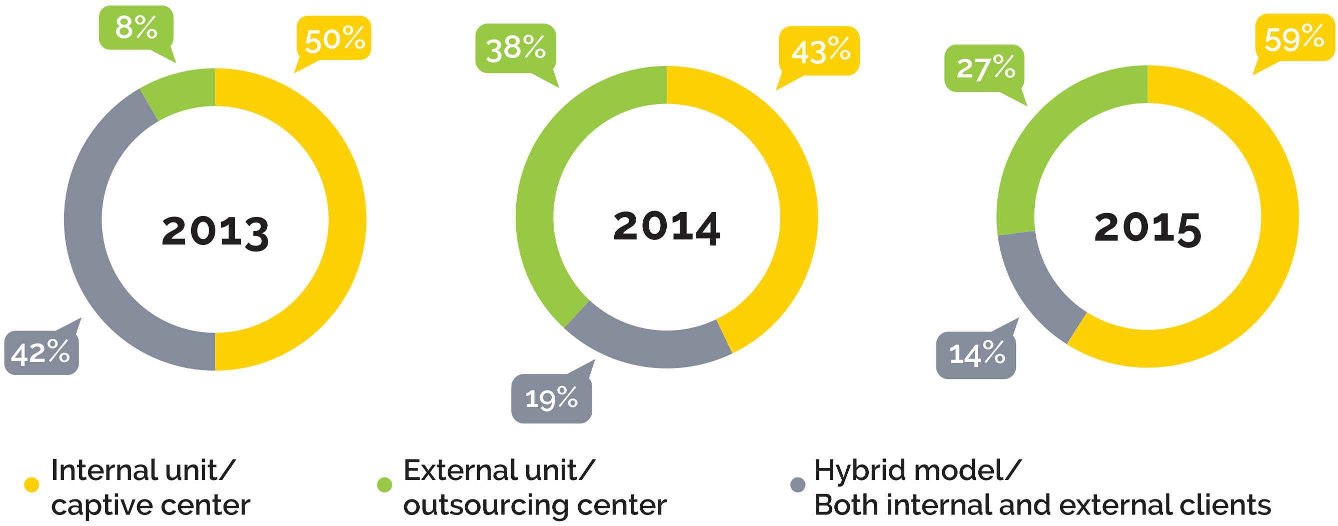
66% of the participating companies started their operation after 2006, 3 companies founded their operation in Hungary in the years of 1995-1998.



Supported customers, regions and services

CUSTOMER PORTFOLIO

Nearly 60% of the companies participating are captive service centers, thus serving only internal customers, this is 16% higher, than in 2014.

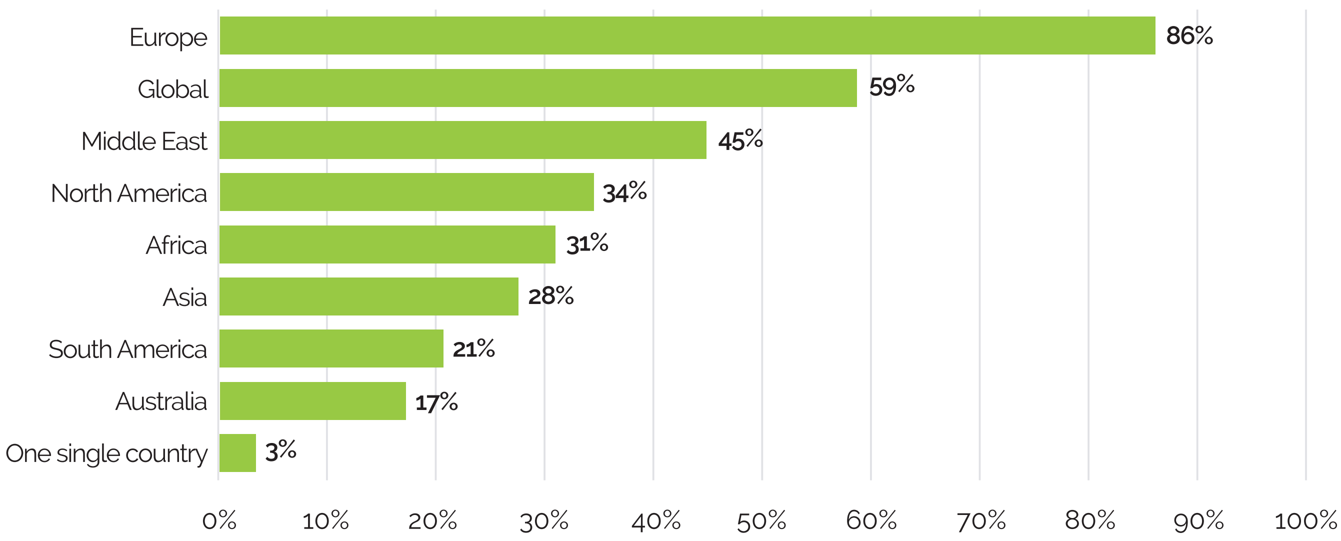


REGIONS SERVED BY SURVEY PARTICIPANTS IN 2015

In terms of geographic reach 59% of the participants provide services globally (more than one continent), 86% for Europe, 45% for Middle East and 34% for North America.

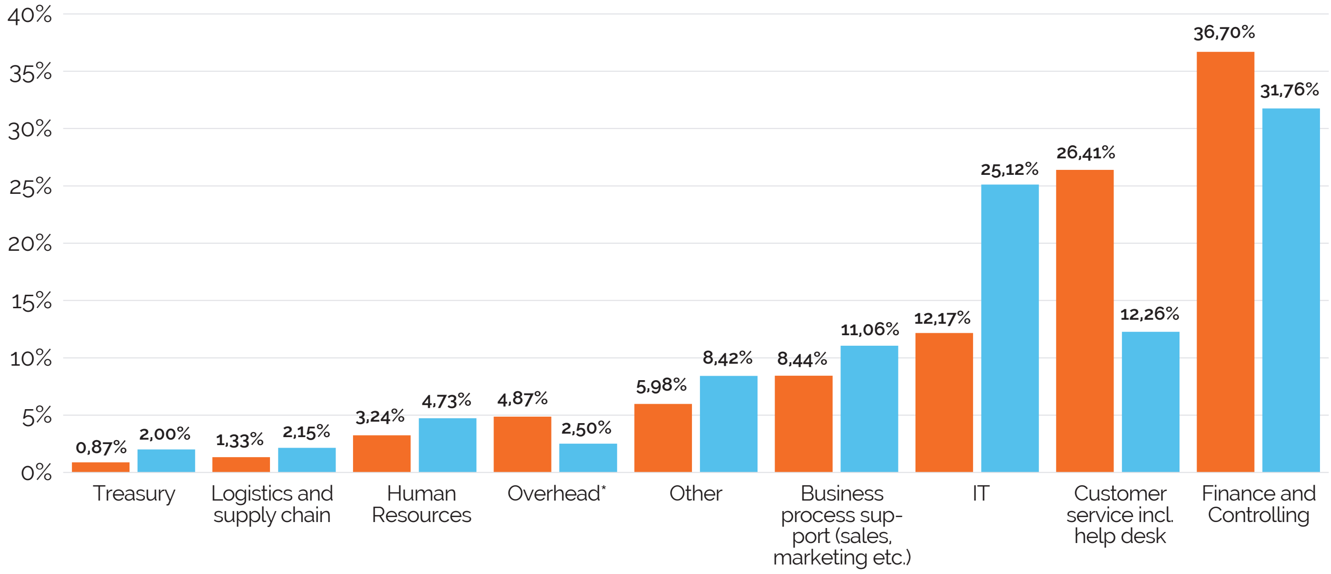
More than 50% provide services for Asia and Africa and despite the distance even Australia is being serviced by 17% of the participants. In 2015 we introduced the global category under the geographic reach, thus the numbers cannot be fully compared to the results of 2014.

However **the Hungarian SSC market can be still considered as a global service center location and not as a European time-zone center.**



SERVICES PROVIDED BY SURVEY PARTICIPANTS

Nearly 80% of SSCs provide services in the area of **Finance and Controlling**, **Customer Service and IT.** The proportion of companies providing IT services in the 2015 survey increased to 25%, the proportion of customer service providers dropped to 12%.
This gives a good indication about the increasing level of professional skill requirements in this sector. Finance, business administration and IT are still the most important skills required.

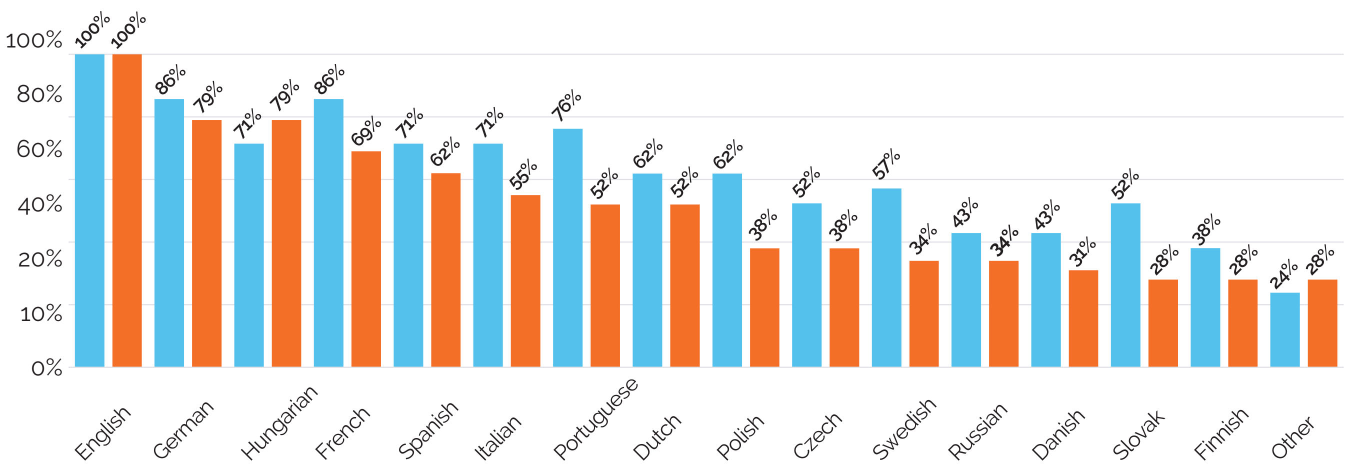


* No direct operational responsibility

● Ratio in 2014 ● Ratio in 2015

LANGUAGES SUPPORTED BY SURVEY PARTICIPANTS

Considering the geographical reach and the services provided by the service centers, besides the professional skills the language requirements are crucial to maintain stable operations and to be able to host more and more centers in Hungary.
In 2015 – like in 2014 – more than 20 languages are supported by Hungarian services centers. The most commonly supported languages in frequency order are: **English**, **German**, **French**, **Spanish**, **Italian**, **Portuguese** and **Dutch**. As the survey shows as well, HOA also emphasizes the focus on language education in all levels of the education programs. This is vital to maintain and grow the SSC industry in Hungary.

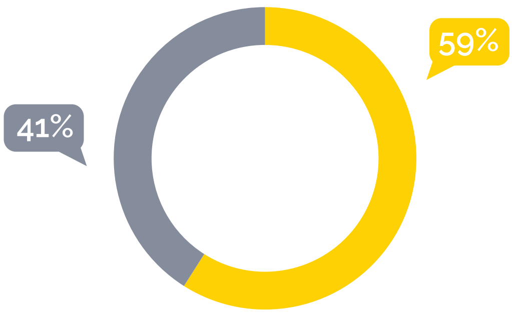


● Supported languages in 2014 ● Supported languages in 2015

In terms of the legal form of the SSCs in Hungary there are some changes compared to 2013 and 2014, companies still prefer to establish a separate legal entity for their shared service operations as 59% answered, that their SSC operates in a separate legal entity, and only 41% of the companies accommodate the SSC within their other operations.

The cost center based concept seems to be still typical in the Hungarian SSC industry, 76% answered, that they run the service center as a cost center.

LEGAL FORM OF SSCs



- SSC as a separate legal entity
- SSC within other operational entity

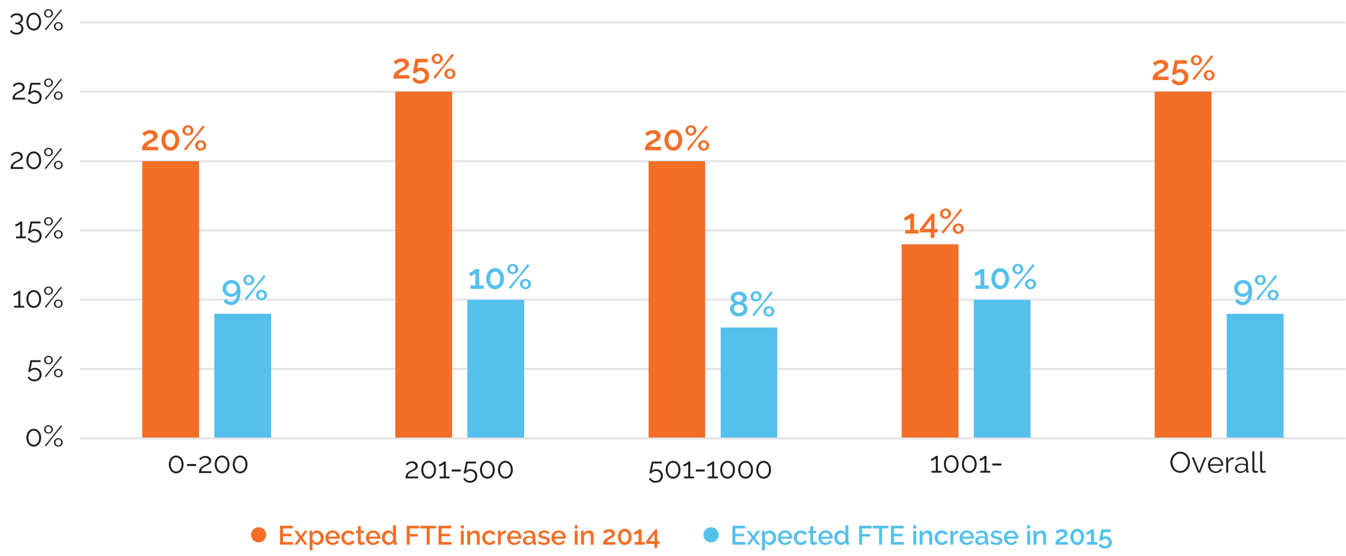
FINANCIAL MODEL OF SSCs

- Cost Centre
- Profit Centre

Service center strategies in Hungary

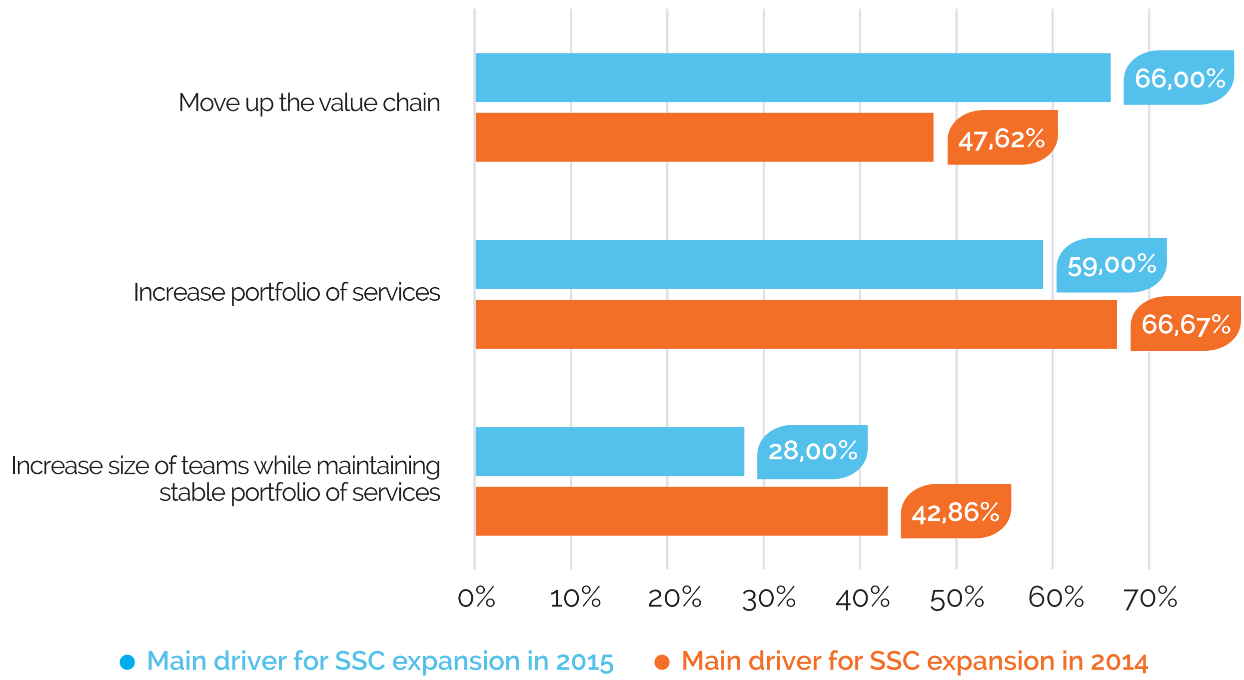
GROWTH POTENTIAL OF THE INDUSTRY

Growth potential of the industry has been collected in the survey. 72% of the participants are planning to expand their operations; none of the participants is expecting any reduction. The overall increase planned for the next 12 months is 9%, meaning approximately 2.000 new employees will be hired by the participating firms. Firms of all company sizes are planning nearly the same 8-10% headcount increase, however the majority of the increase – altogether 1600 people - comes from 7 firms due to the size differences amongst the participants.



KEY SOURCES OF GROWTH

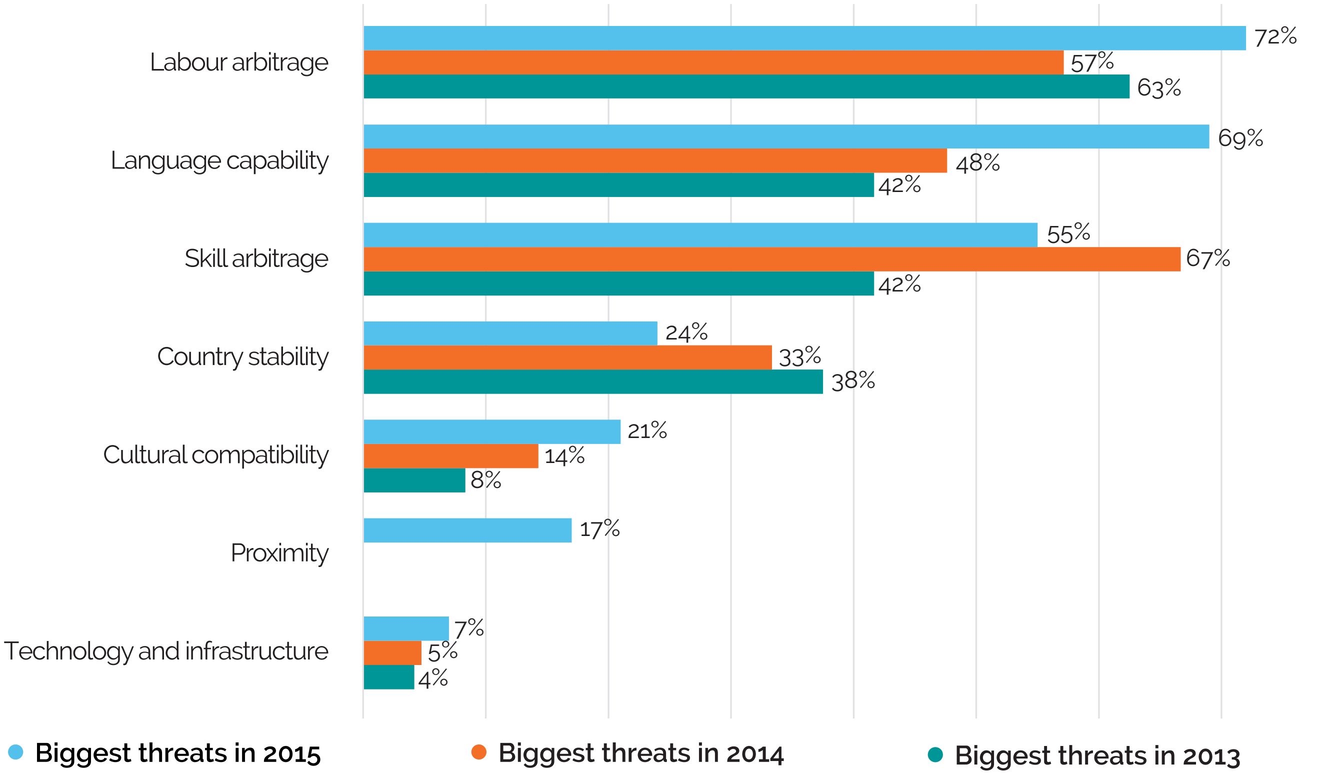
The expansion primarily comes from increasing the service portfolio and more than 60% of the participants are also planning to uplift services on the value chain.



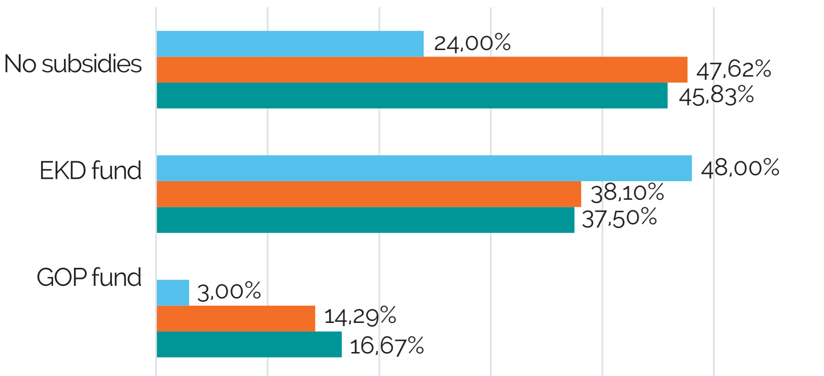
COMPETITIVENESS FACTORS

Competitiveness factors of Hungary as a hosting country for shared service centers have also been examined in the survey.

The participants pointed out four major risks, ranked in the following order: **labour arbitrage, language capability, skill arbitrage, and country stability.** Labour and language related concerns drastically increased compared to 2014, 72% of the participants see labour as a clear issue (it was 57% in 2014) and 69% consider language as a threat (it was 48% in 2014). 24% of the participants mention country risk amongst the biggest threats of the industry, this is clearly less than in 2013 and 2014, but despite the decrease this can be still considered as a major risk considering that nearly all of the participating companies are international firms, where investment decisions are made outside of Hungary. In 2014 skill arbitrage seemed to be the biggest threat for the participating SSCs, 67% marked this as number 1 threat, now it decreased to 55%, but still more than half of the participants raised their concerns.



INDUSTRY SUBSIDIES



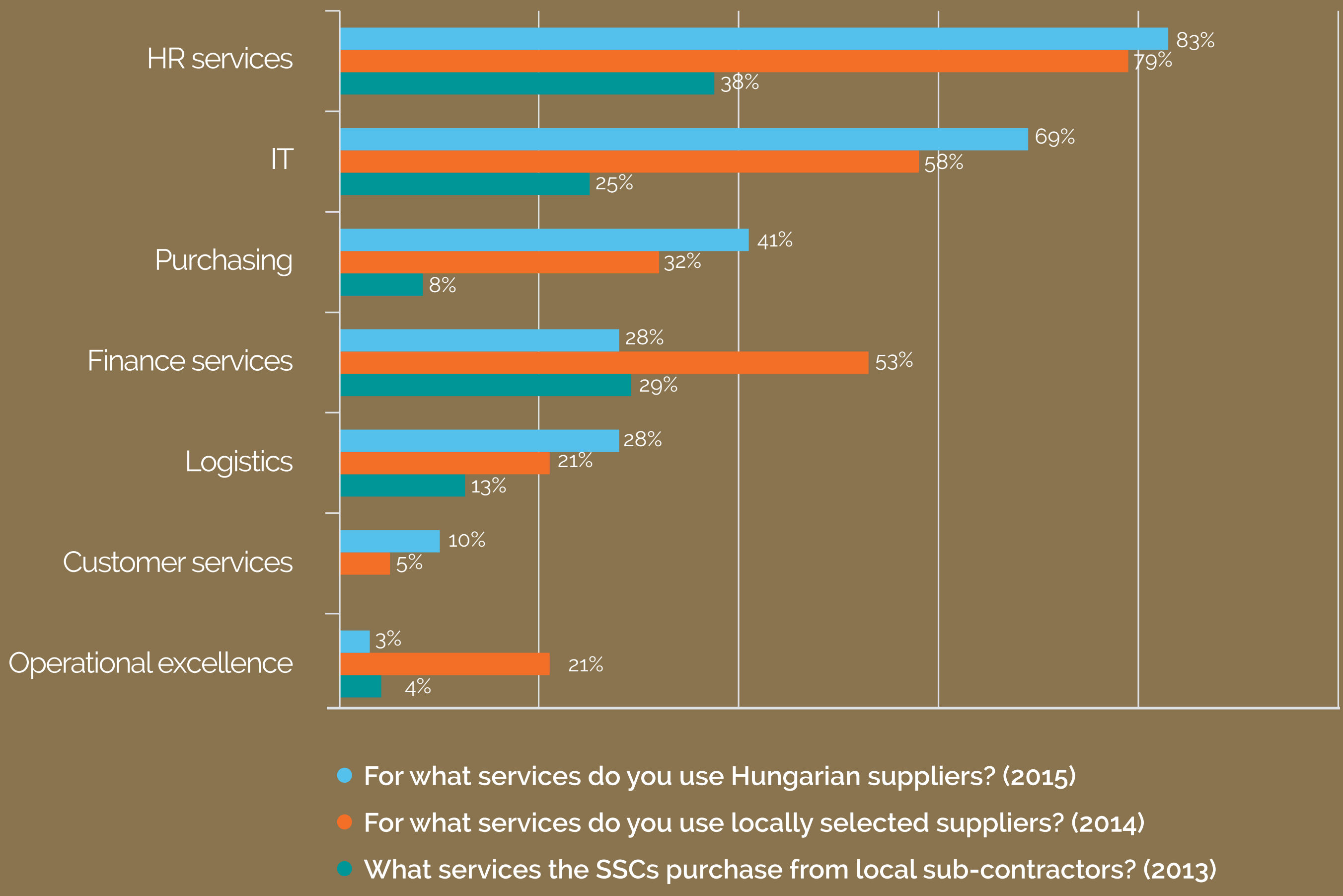
With regards to subsidies only 48% of the respondents have demanded EKD funds, 24% did not take any subsidies.

- **Received subsidies in 2015**
- **Received subsidies in 2014**
- **Received subsidies in 2013**

SERVICES PURCHASED FROM HUNGARIAN SUPPLIERS

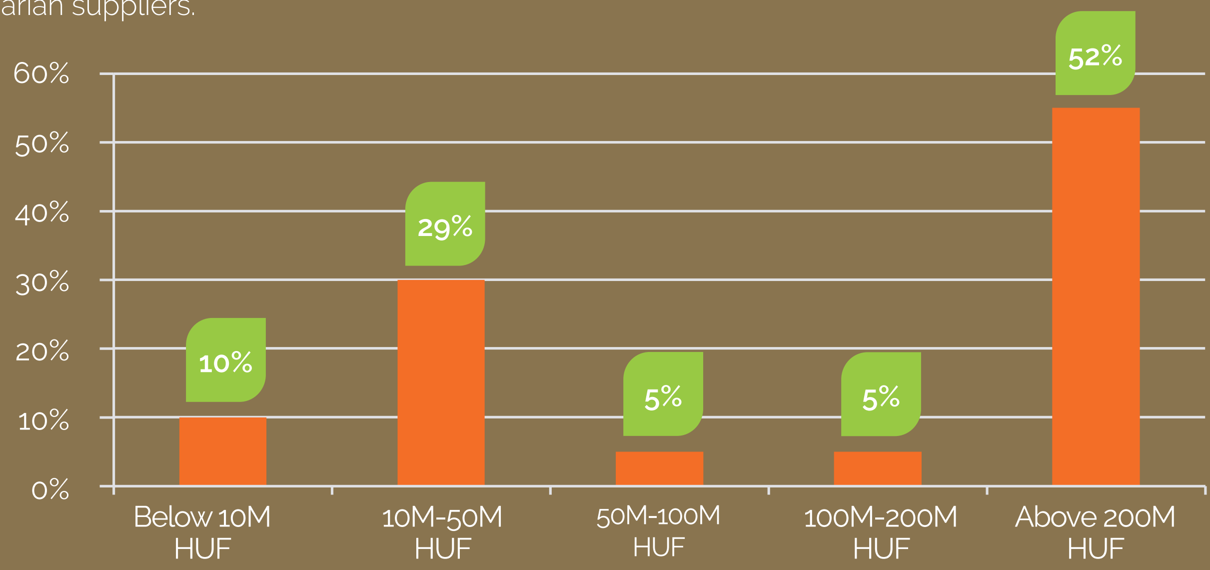
100% of the participants work with Hungarian suppliers. The wording of the question has been refined throughout the years to receive more relevant answers.

The most common services that SSCs use Hungarian suppliers for are HR, IT and purchasing services, however for finance and logistics services nearly 30% of the participants use local suppliers as well.



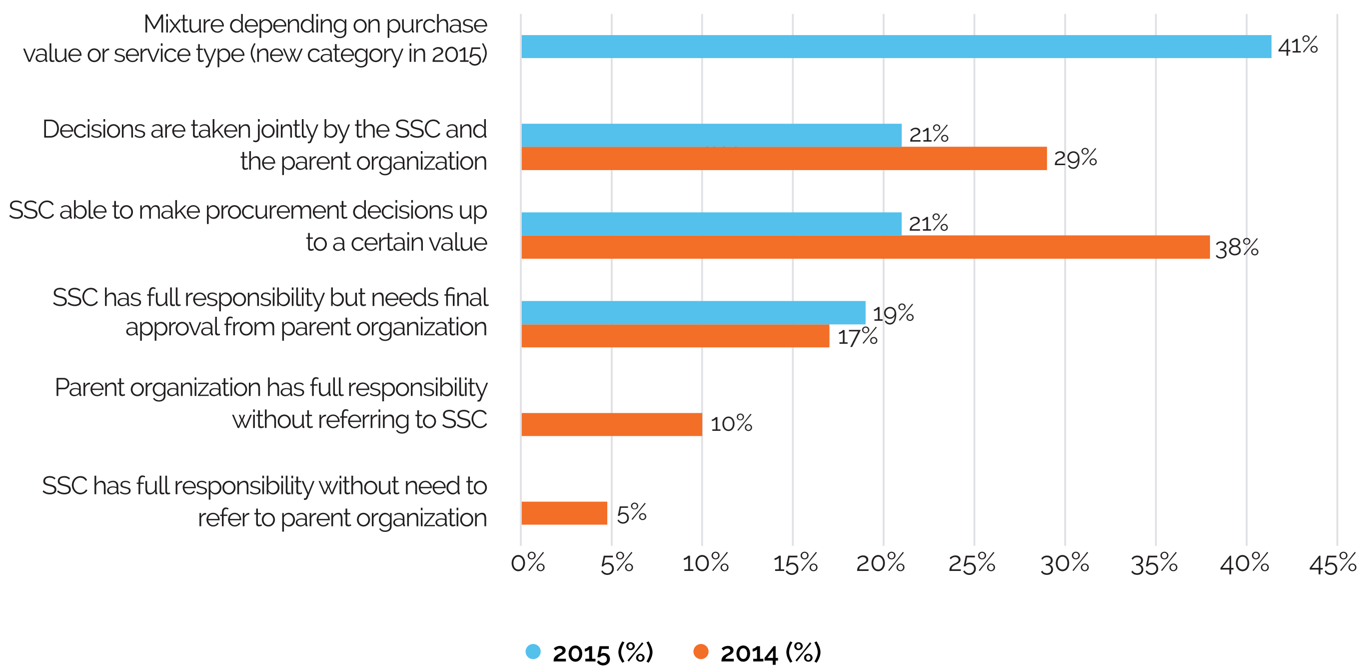
EXPENDITURE AT HUNGARIAN SUPPLIERS (/YEAR)

In terms of expenditure 52% of the respondents (11 firms) spend more than 200 million HUF / year at Hungarian suppliers.



HOW ARE THE PROCUREMENT DECISIONS AND PURCHASE OF TECHNOLOGY CARRIED OUT?

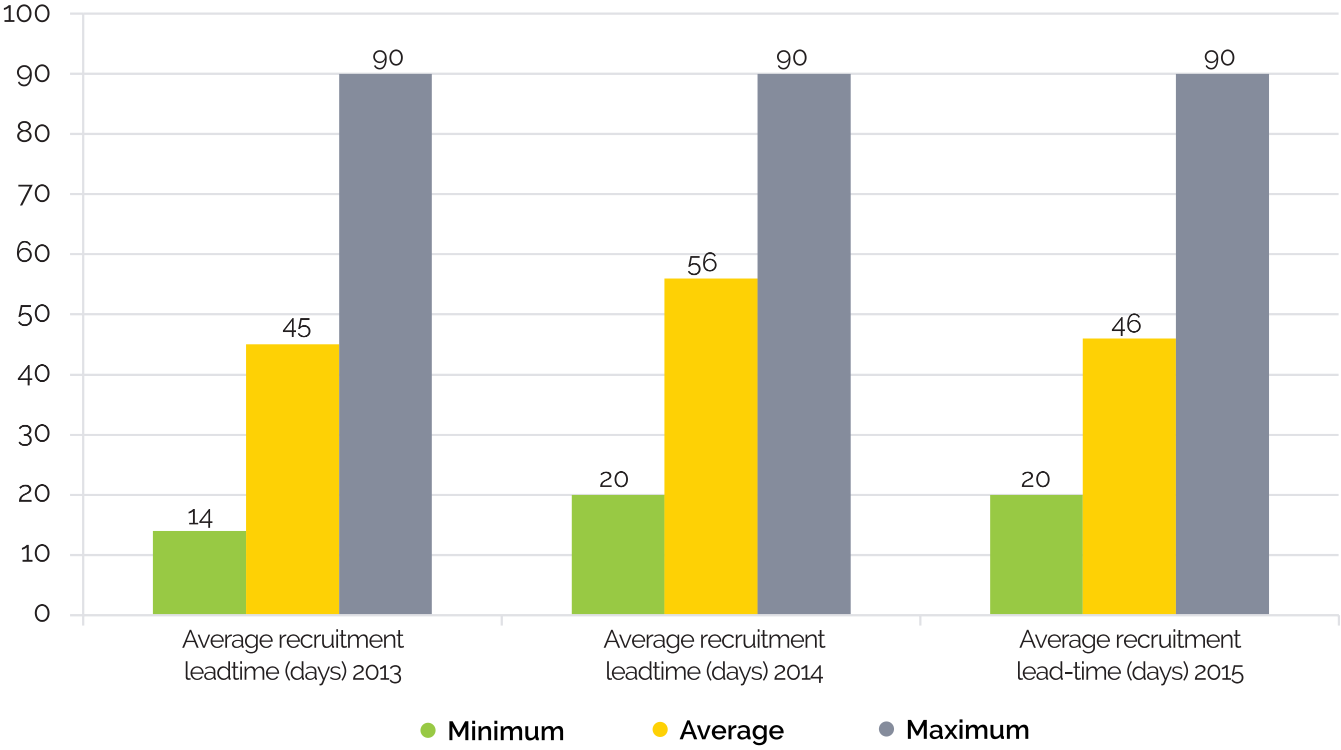
This is supported by the fact that SSCs are able to make procurement decisions either with full responsibility or jointly with the parent organization. Only in case of 10% of the participating organizations has the SSC no power in influencing the supplier selection and procurement process. Thus, the conclusion can be drawn that local SMEs and local branches of international firms have good chances to become suppliers of SSCs.



HR indicators

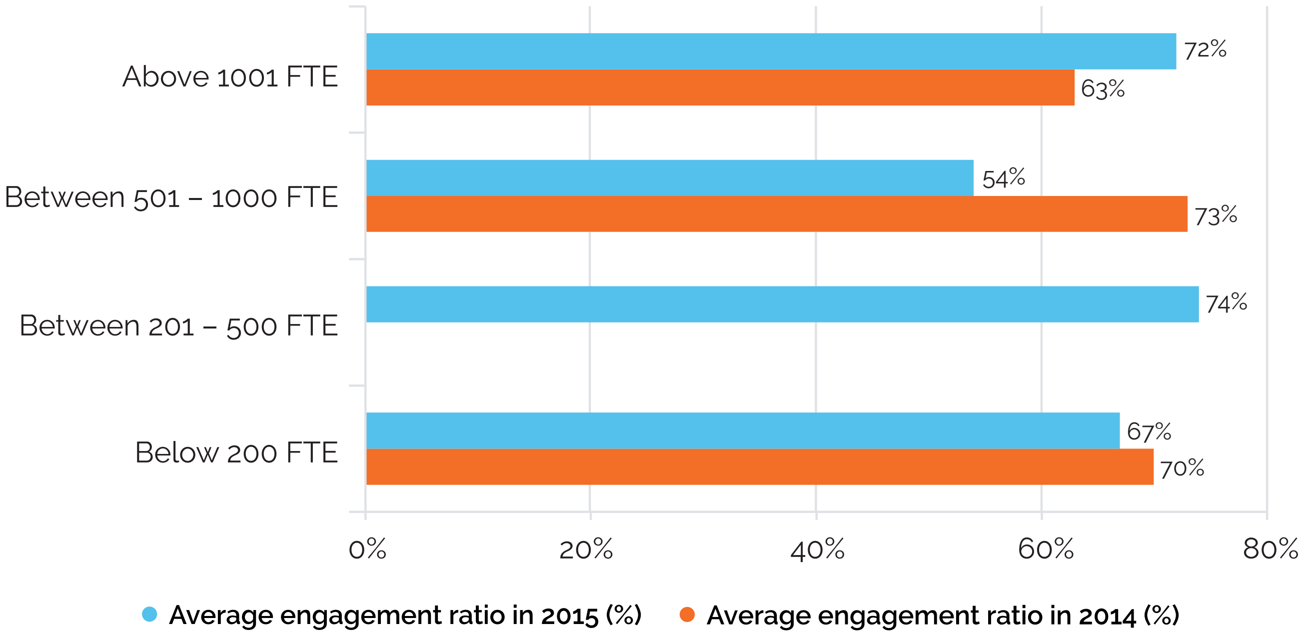
RECRUITMENT LEAD-TIME

The average recruitment lead-time is 46 calendar days, it decreased from 56 days reported in 2014 back to almost the same level as it was in 2013.



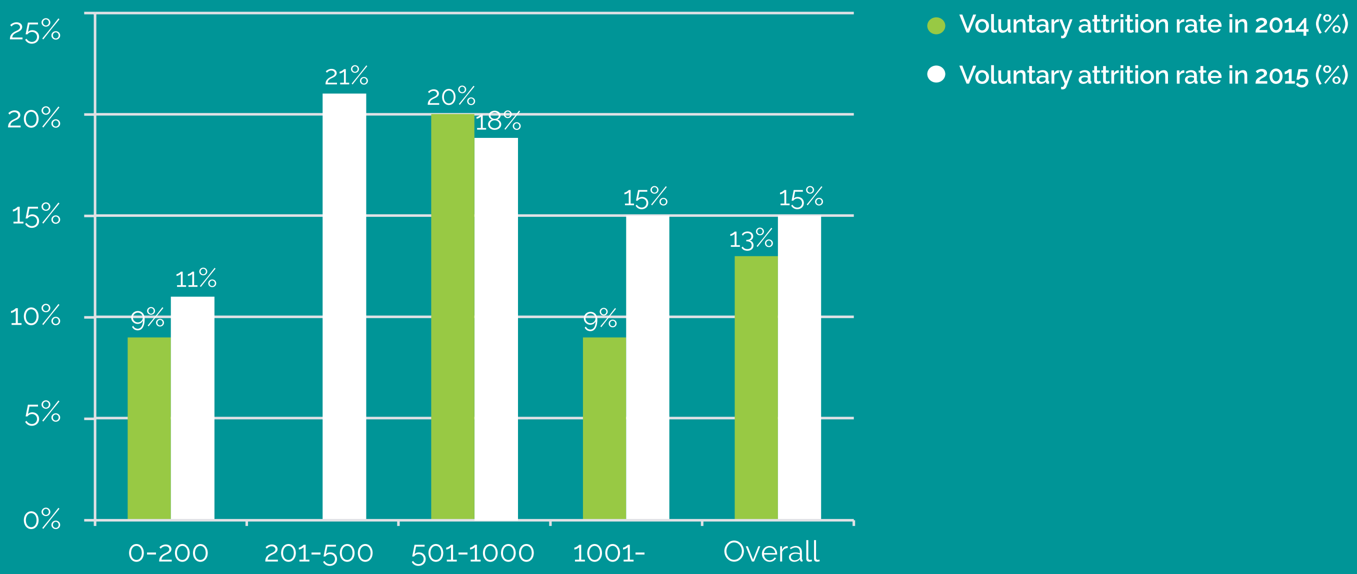
ENGAGEMENT RATIO

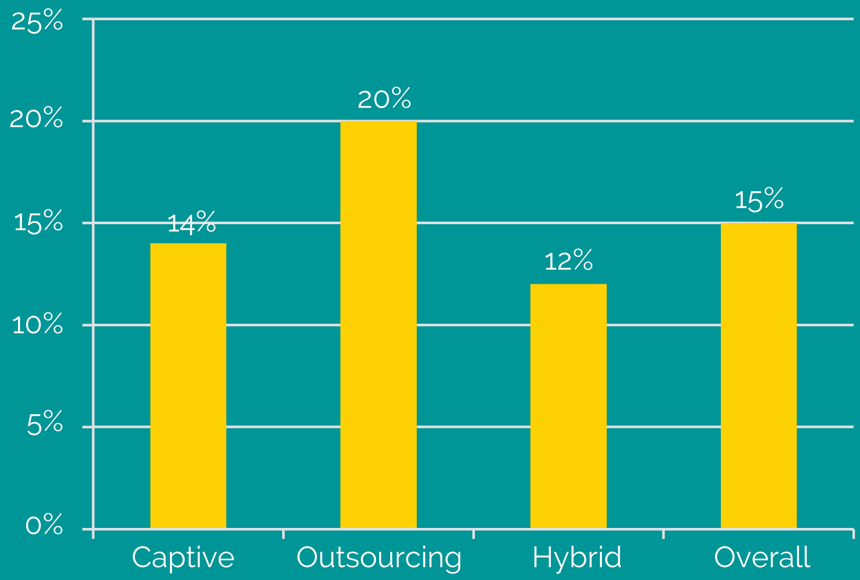
93% of the participants utilize engagement surveys in their people processes. The average score is nearly the same as in 2014: 68%. Service centers with the size of 201-500 employees reached the highest score at 74%.



VOLUNTARY ATTRITION RATE

In 2015 the voluntary attrition rate is 15% amongst the participating companies; it is nearly on the same level as it was in 2013 and 2014. However, if we link the size of the organization and the attrition rate, the attrition rate is higher - 18% - at the companies with 500-1000 employees and it is 21% at the companies with 201-500 employees.

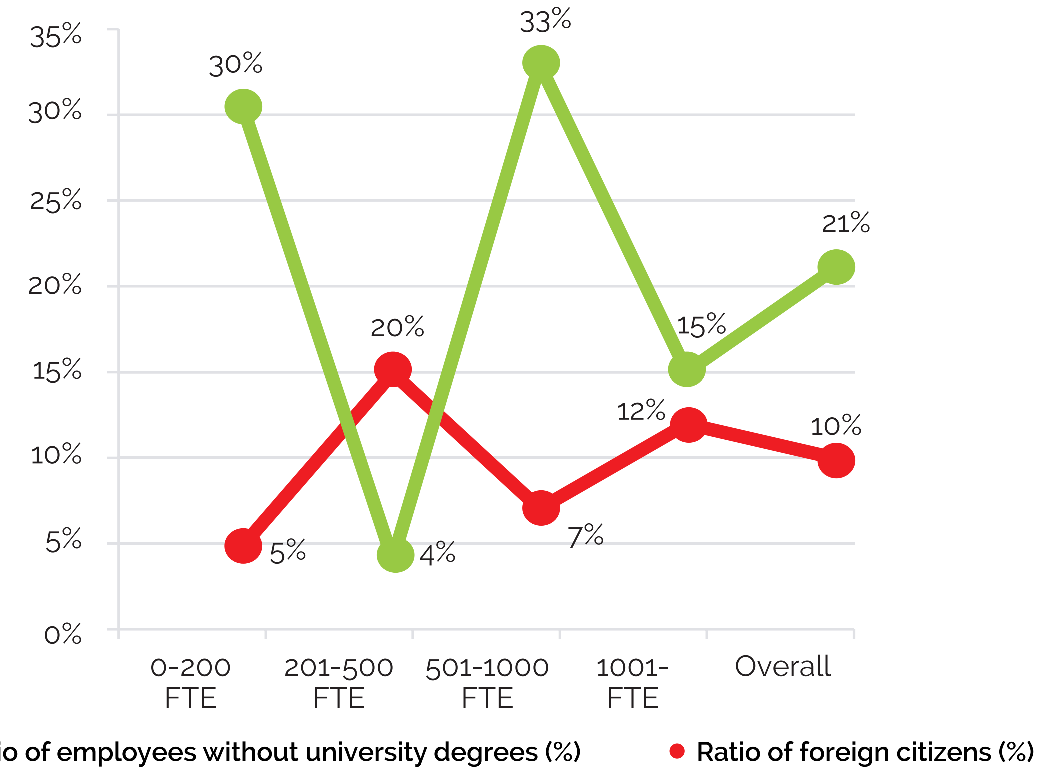




Differences can be identified when analyzing the attrition rates of different type of SSCs. At the outsourcing firms the average attrition rate is 20%, while in captive centers it is only 14%.

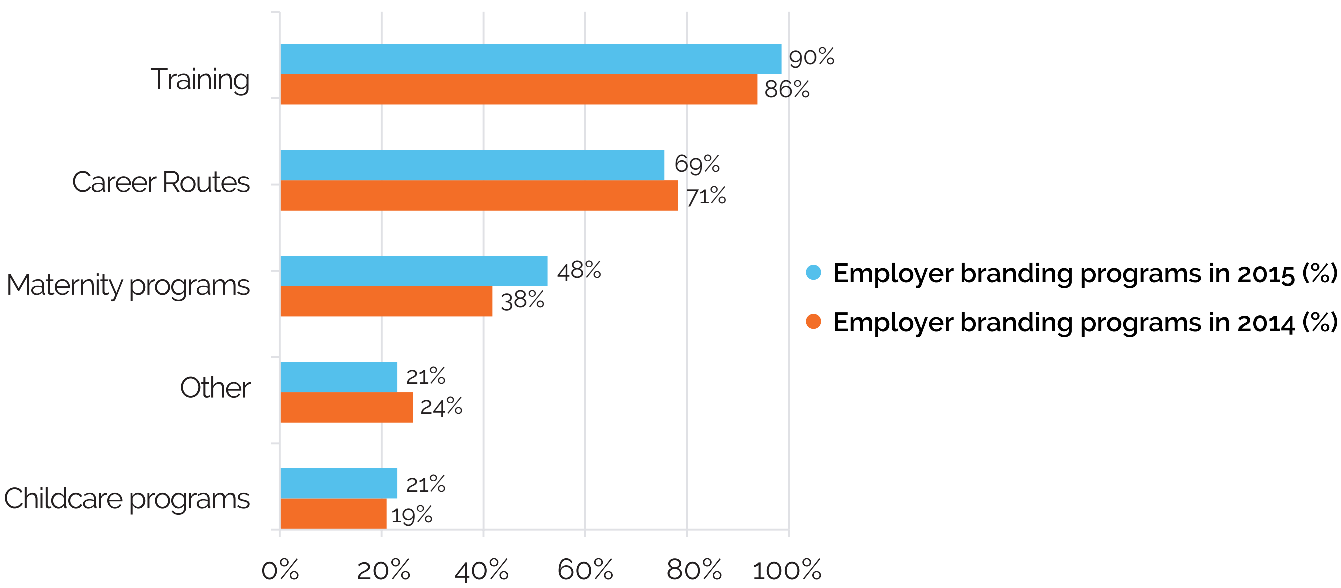
EMPLOYEE CHARACTERISTICS

We have analyzed the workforce from several perspectives. Language skills have been already covered in the previous sections of the survey. As the highly-skilled and language-speaking workforce is getting more and more difficult to be recruited, alternative channels are being tested by the centers all the time. Recruiting from abroad was always an option, the foreign citizen ratio is in average 10% in the service centers.

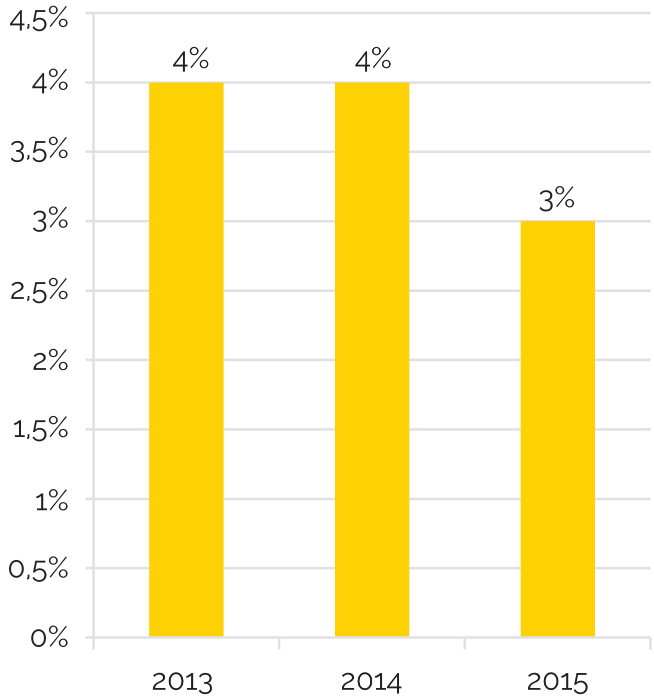


EMPLOYER BRANDING PROGRAMS

90% of the participating companies are using some kind of employer branding programs to support motivation and aim to be seen as socially responsible employers. Amongst some other areas, the following tools are being used: sports activities, company events, language courses, talent programs, CSR, health and safety programs, environmental initiatives, community buildings and cultural activities. Most of the employers (90%) provide some kind of training programs; nearly 70% is working on structured carrier routes and half of the employers provide maternity programs.



YEARLY AVERAGE SALARY INCREASE (%)



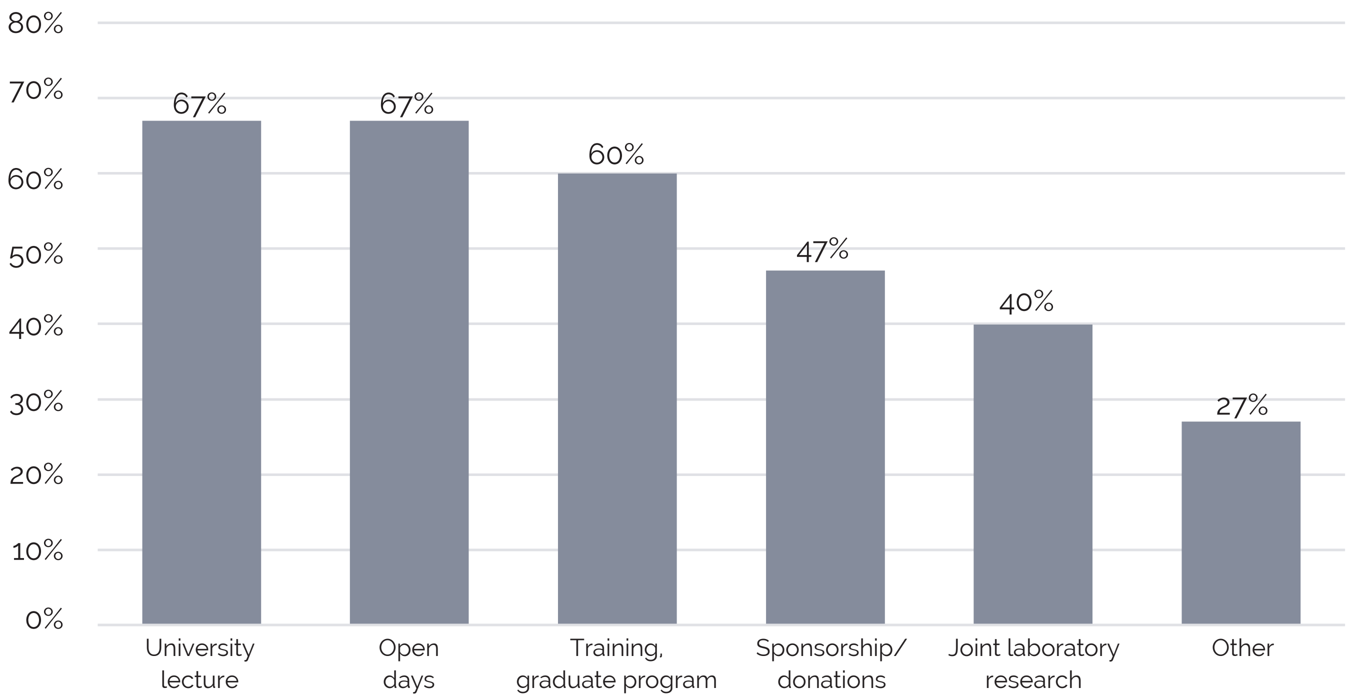
In terms of salary increase, no major difference can be recognized in the past 3 years.

In 2015 average 3% salary increase was given to the employees of the sector compared to the average 4% in 2013-2014.

AREAS OF UNIVERSITY RELATIONS

As the recruitment of the skilled and language-speaking workforce is time-consuming (in average 45 days), and due to the fact that more and more service centers entering the market and existing centers expanding, companies start the actual recruitment process already at the universities by introducing different activities and channels.

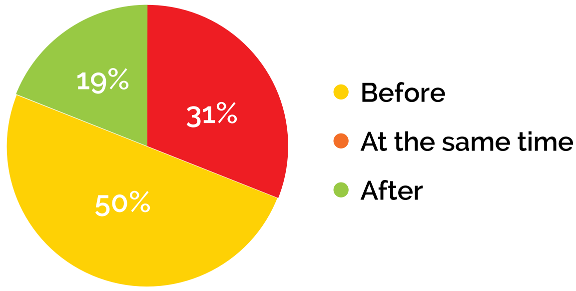
The most typical forms of the cooperation are the followings: giving lectures, running graduate and specified training programs, organizing company open days, sponsorships or laboratory programs with the selected universities.



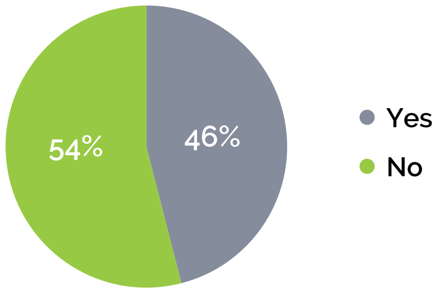
Technology

MOVE PROCESSES TO SSC BEFORE, DURING, OR AFTER TECHNOLOGY CHANGE

Achieving efficiency in shared services is influenced by the optimization of the underlying technology. In order to be able to realize SSC benefits, 81% of organizations participating in the survey transformed their technology backbone prior to or at the same time as moving processes into the shared service center.



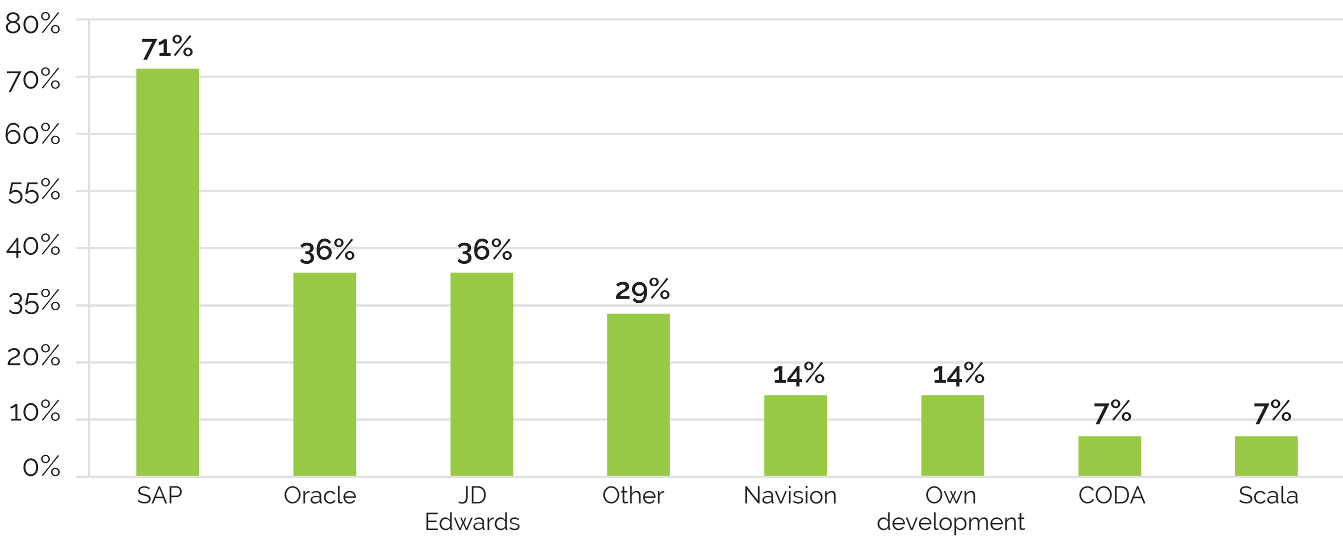
ALL THE MAJOR STEPS OF E2E PROCESSES MANAGED BY ONE INTEGRATED ERP SYSTEM IN ALL COUNTRIES



Administrative processes are technology-dependent and despite the fact, that the major part of benefits, that can be gained from process centralization are coming from the usage of integrated ERP solutions, 54% of the participating companies do not use a single ERP system in all countries. This is clearly a decrease compared to 2014, where 65% of the participants were not using one ERP system.

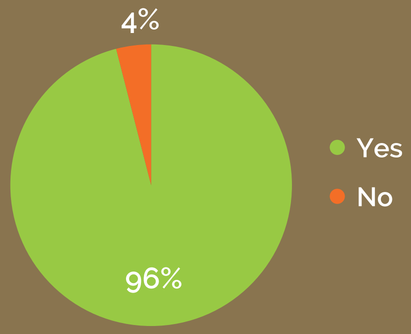
ERP SYSTEMS IN USE

Administrative processes are technology-dependent and despite the fact, that the major part of benefits, that can be gained from process centralization are coming from the usage of integrated ERP solutions, 54% of the participating companies do not use a single ERP system in all countries. This is clearly a decrease compared to 2014, where 65% of the participants were not using one ERP system.

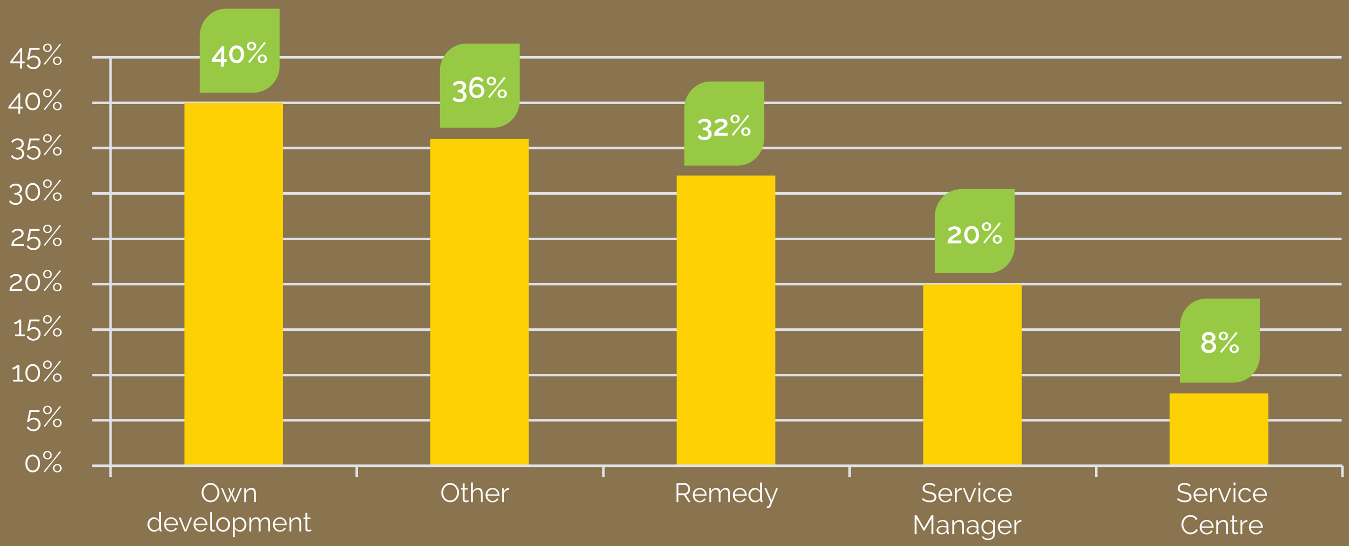


USE OF TICKETING SYSTEMS TO TRACK QUERIES

Nearly all participants (96%) reported that they use ticketing systems to manage queries, the most commonly used systems are **Remedy and Service Manager**, but nearly 40% of participants invested into the development of an in-house solution. This is the same situation as in 2014.



TICKETING SYSTEMS IN USE



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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