HOA SSC SURVEY

2014

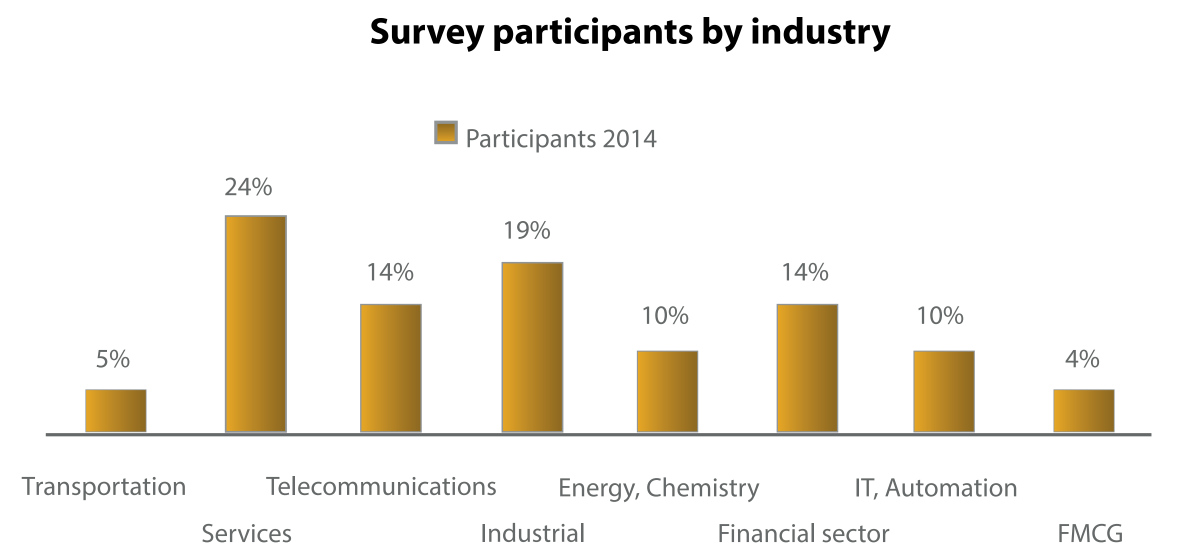
Introduction

This is the second edition of the annual survey of the Hungarian SSC market, carried out by the Hungarian Services and Outsourcing Association. We initiated the survey in order to have an ongoing overview about one of the most dynamically growing sectors of the Hungarian economy. HOA will repeat this survey on an annual basis to provide reliable, comparable industry measures to its members and the investors considering entering the market.

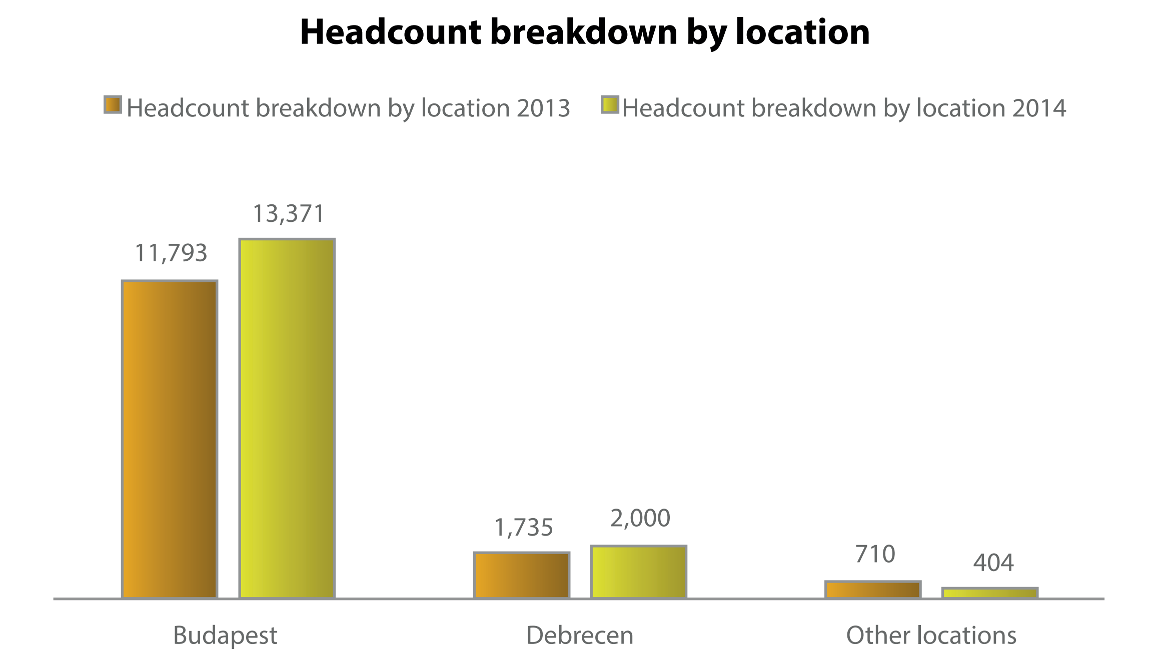
The survey targeted all currently active shared services centers in Hungary irrespective of their HOA membership as well as outsourcing service providers. One of the most important goals of the survey is to provide benchmarking data for industry members about the Hungarian SSC market. The survey focused on the key information and data, required for a comprehensive analysis of the market and its trends. All benchmark information is available for HOA members free of charge who participated in the survey. As HOA conducted the survey for the second year, comparison data to 2013 results are also published in this report.

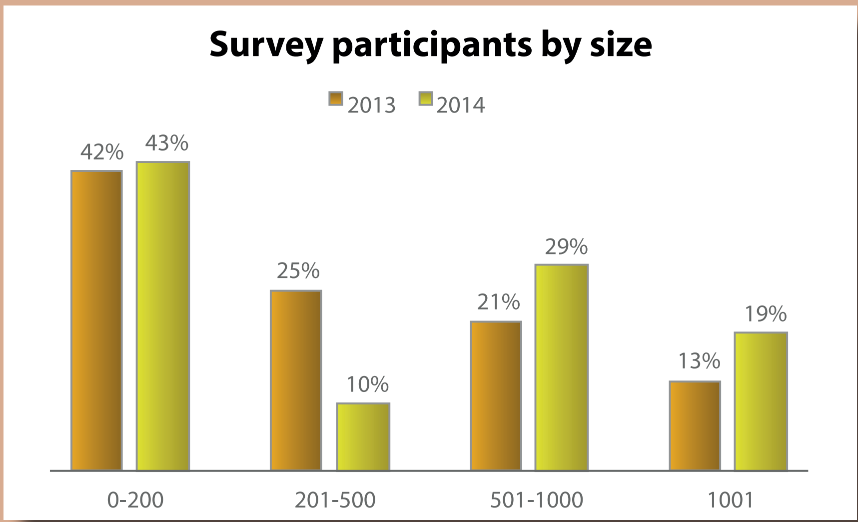
General findings of the survey

25 major Hungarian Shared Service Centers and Outsourcing companies have completed the survey. Ten industries were represented out of which Services, Financial Sector, Telecommunications and Industrial production took the biggest stake (71%).



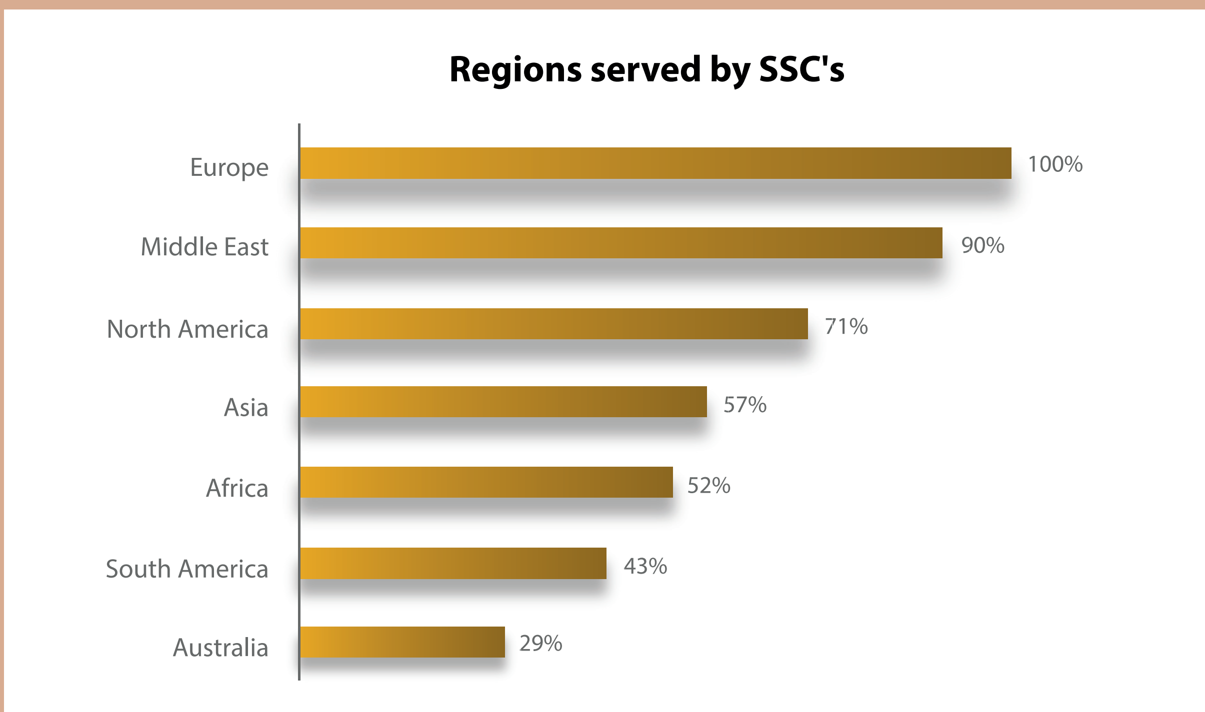
Participants employ altogether 16.000 people out of which 85% are located in Budapest, 13% in Debrecen and 2% in other cities.

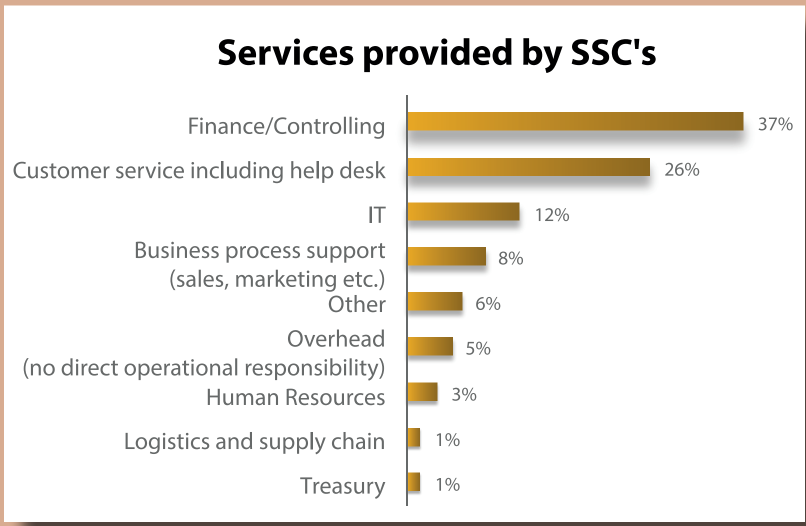




The participants of the survey employ 800 people in average, which indicates the bigger SSCs were over represented in the survey. In 2013 the average size of participating firms have been 600, in 2014 nearly all large sized SSC's participated the survey.

In terms of geographic reach 100% of the participants service Europe, 90% Middle East and 71% North America, more than 50% service Asia and Africa and despite the proximity difference even Australia is being serviced by one third of the participants. **The Hungarian SSC market can be considered as a global service center location and not anymore a Europe time-zone center.** Factors supporting service globalization is the availability of skilled, language speaking resources and process automation.



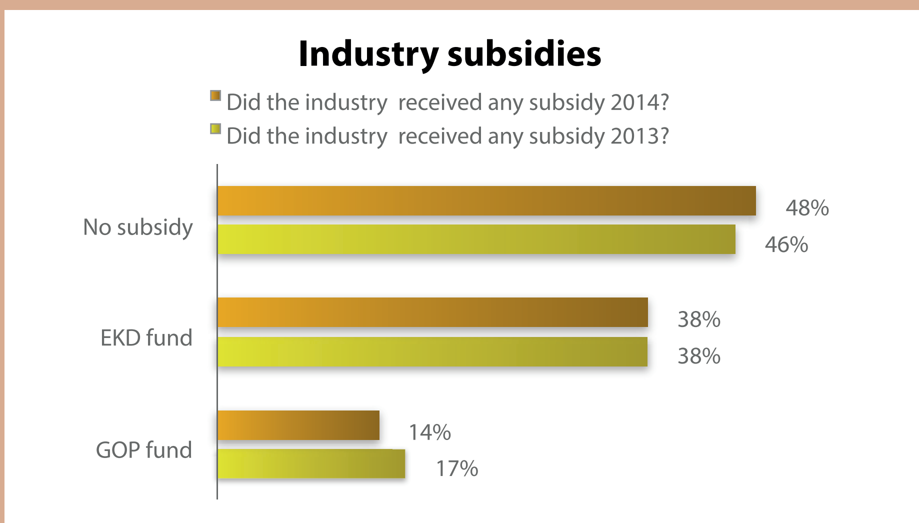


Nearly 80% of SSC's provide services in the area of Finance and Controlling, Customer service including help desk and IT.

In terms of the legal form of the SSC's in Hungary no changes compared to 2013, companies prefer to establish a separate legal entity for their shared service operations as more than 70% answered, that their SSC operates in a separate legal entity.

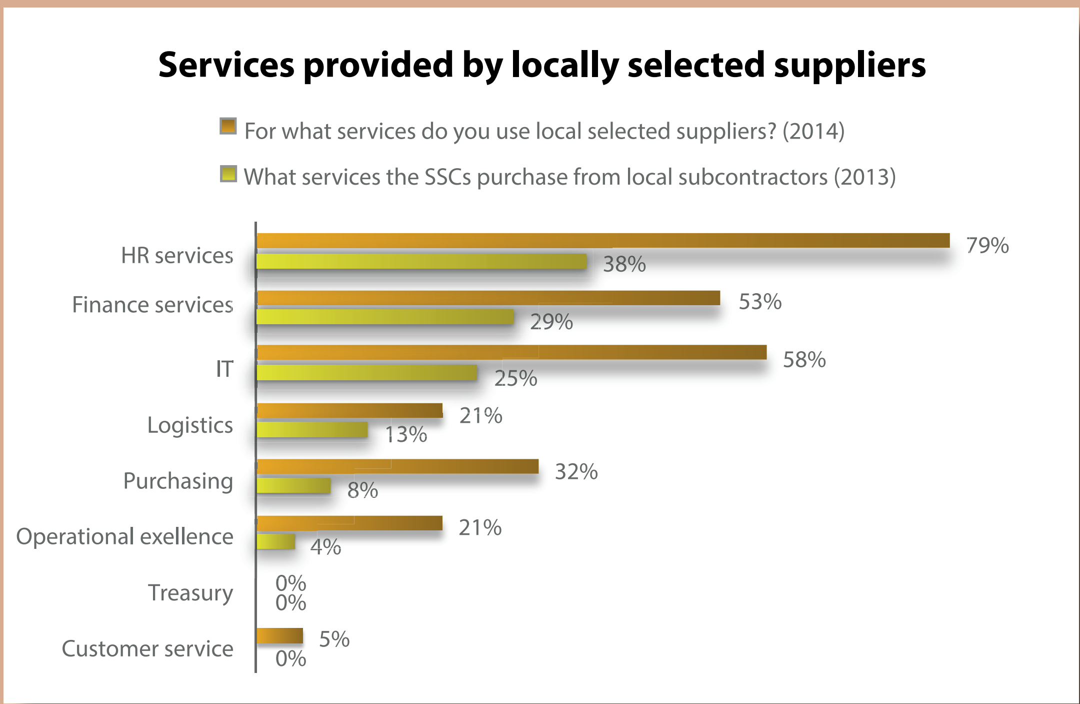
The cost-based concept of settlement seems typical in the Hungarian SCC industry, 70% answered, that they run the business on a cost-based concept, this is a change compared to 2013, due to the fact that in 2014 the survey covered more companies with external client services The companies providing services to external clients increased from 50% to 57%.

With regards of subsidies only 52% of the respondents have demanded any kind of subsidies either from Hungarian government or from EU sources, no material change compared to 2013. Since the bigger companies are over represented, it is assumed that in the total industry the subsidy portion is below 50%.



90% of the participants utilize locally selected suppliers. Major changes can be observed compared to 2013 results, which is due to the fact that the formulation of the question has been refined from “use of local subcontractors” into “locally selected suppliers”.

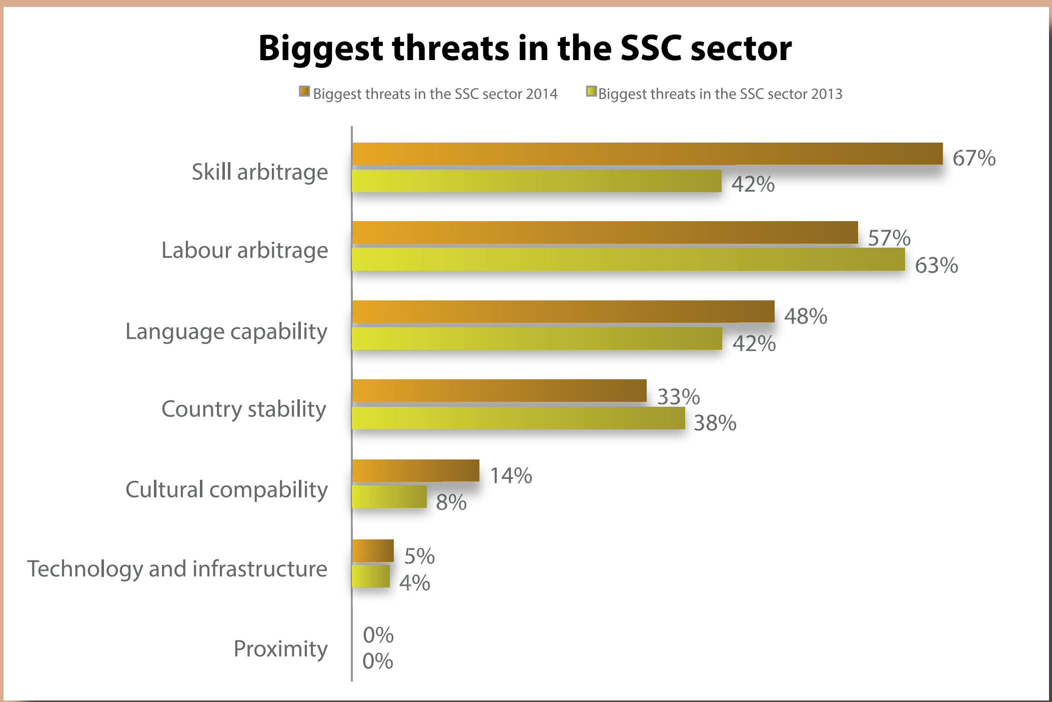
The most common services SSC’s use through locally selected suppliers are HR, Finance and IT services, however in Logistics, Purchasing and in Operation excellence 20-30% of the participants use locally selected suppliers.



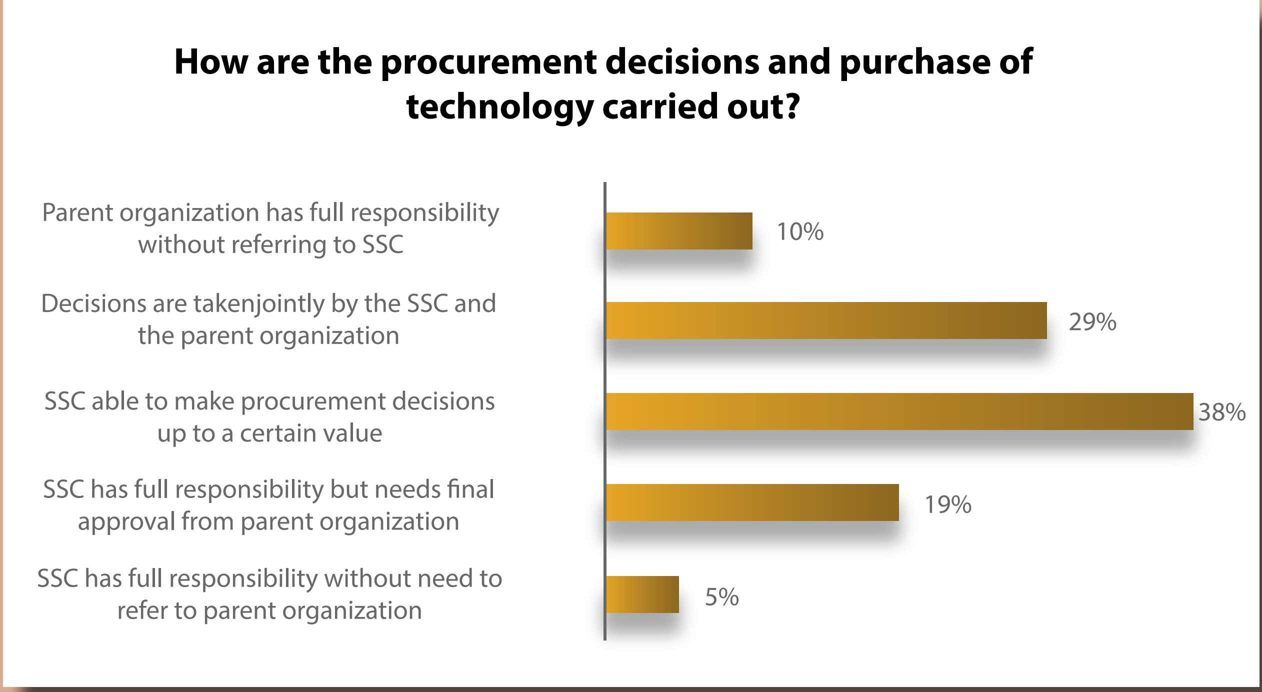
Country advantages and competitiveness factors has been also examined in the survey. All participating organizations have been founded prior 2011, thus even the youngest operation has already 3 years experience in the market.

The participants pointed out four major risks, ranked in the following order: skill arbitrage, labour arbitrage, language capability and country stability. 33% of the participants mention country risk among the biggest threats of the8industry, this is 5% less than in 2013, but despite the decrease this can be still considered as a major risk considering that all of the participant companies are international firms, where investment decisions are made outside of Hungary.

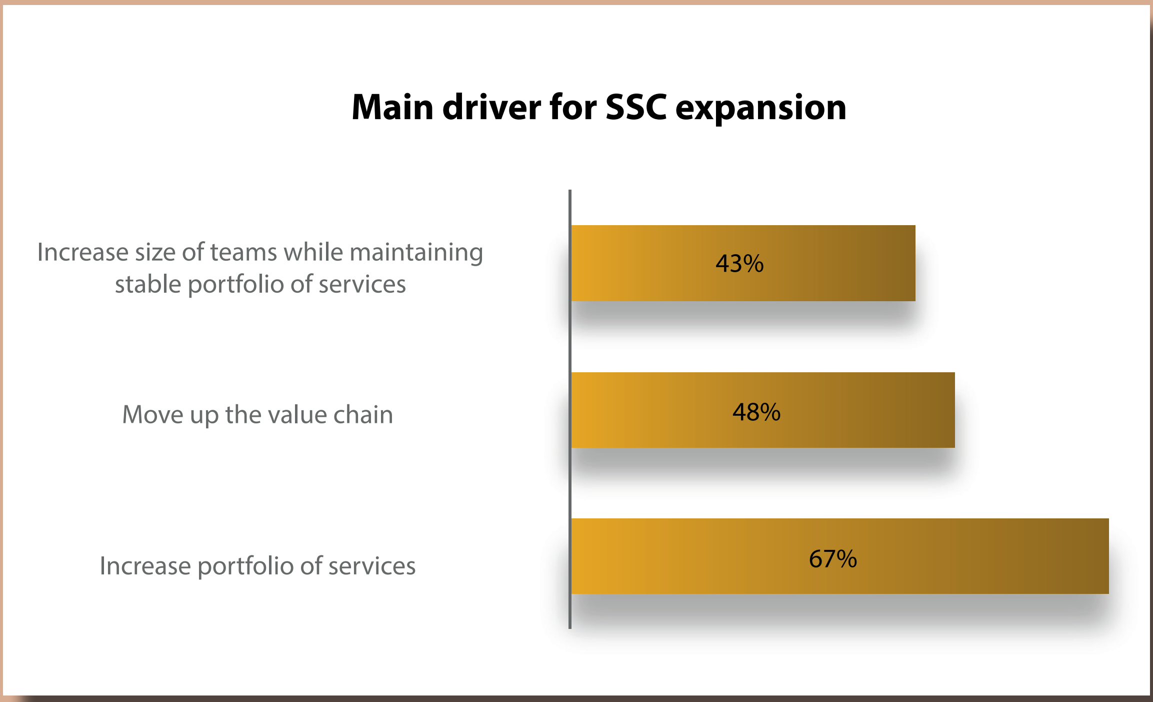
In 2014 skill arbitrage seem to be the biggest threat for the participating SSC's, 67% marked this as number 1 threat, HOA will collect further data what specific skills participants consider as missing from the market.



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



Potential growth of the industry had been also evaluated. 80% of the participants plan to expand its operation; none of the participants is planning any reduction. The expansion is planned to come primarily from increasing the service portfolio, but relevant elements are increasing size within the existing portfolio and nearly half of the participants is planning to upscale the value chain. The expected size increase for those participant Shared Service Centers, which are planning to increase is 20% on average representing 1900 FTE increase.



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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
and in particular through uptaking the concept of outsourcing.

HOA is an open, independent, professional organization.
It's common organizing principle is to participate in service activities provided to the stakeholders of the economic and public sector. We act in the interest of the
outsourcing sector and our Members.
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