

TIME FOR AFRICA!

Why the region's outsourcing and offshoring potential cannot be ignored.

Most of us fear the unknown. That leads many of Europe's Business Services Sector (BSS) leaders to locate and expand operations in proven and "top-of-mind" locations.

But the sector already employs well-over 850,000 across the EU today. A number poised to grow by least 5% per annum post-Covid. With many destinations already "taken" and increased recruitment challenges, companies need to look for additional options.

Right on our doorstep a powerful alternative emerges: Africa.

As typical for the BSS, robust data are scarce, if at all available. Still, it would be fair to assume that the continent's BSS employment hovers around 785,000. The region has cost levels averaging a sliver above India, physical and cultural to Europe proximity, fast improving infrastructures and

barely tapped talent pools. Could it offer the Central European BSS a direly needed overflow capacity? Or even more?

NEED POLITICAL STABILITY?

Political and economic stability are key to many location and sourcing decisions. Africa's gloomy reputation on that may thwart decision makers.

Yet the BSS globally has thrived well in countries that initially, or even today, do not necessarily rank among the world's most stable destinations.

As an example: Price Waterhouse established shared services for its clients BP and International Paper in Krakow as early as in 1996. Clearly Poland today offers a far more stable environment than it did twenty-four years ago.

Other "daunting location decisions" include Swiss Post Services (Ho-Chi-Minh

City, since 2010 – over 1,000 staff serving clients globally) and Majorel (Tbilisi, since 2015 – over 1,600 staff serving mainly Europe-based clients).

These cases are not exceptional. Many of the key BSC destinations globally are in countries with relatively weak political stability are (see table).

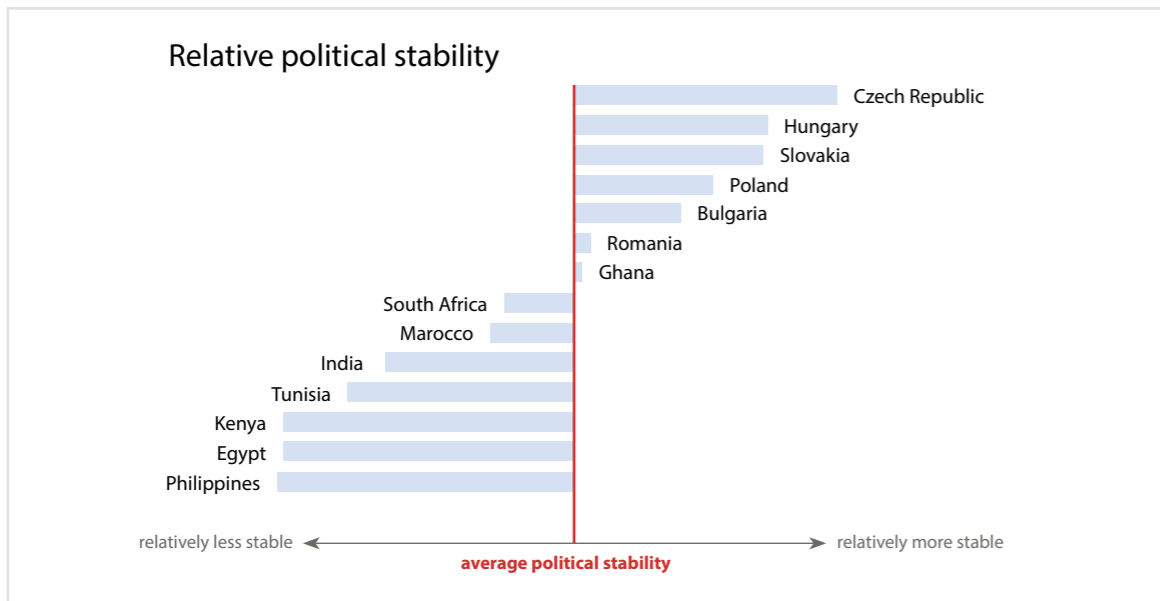
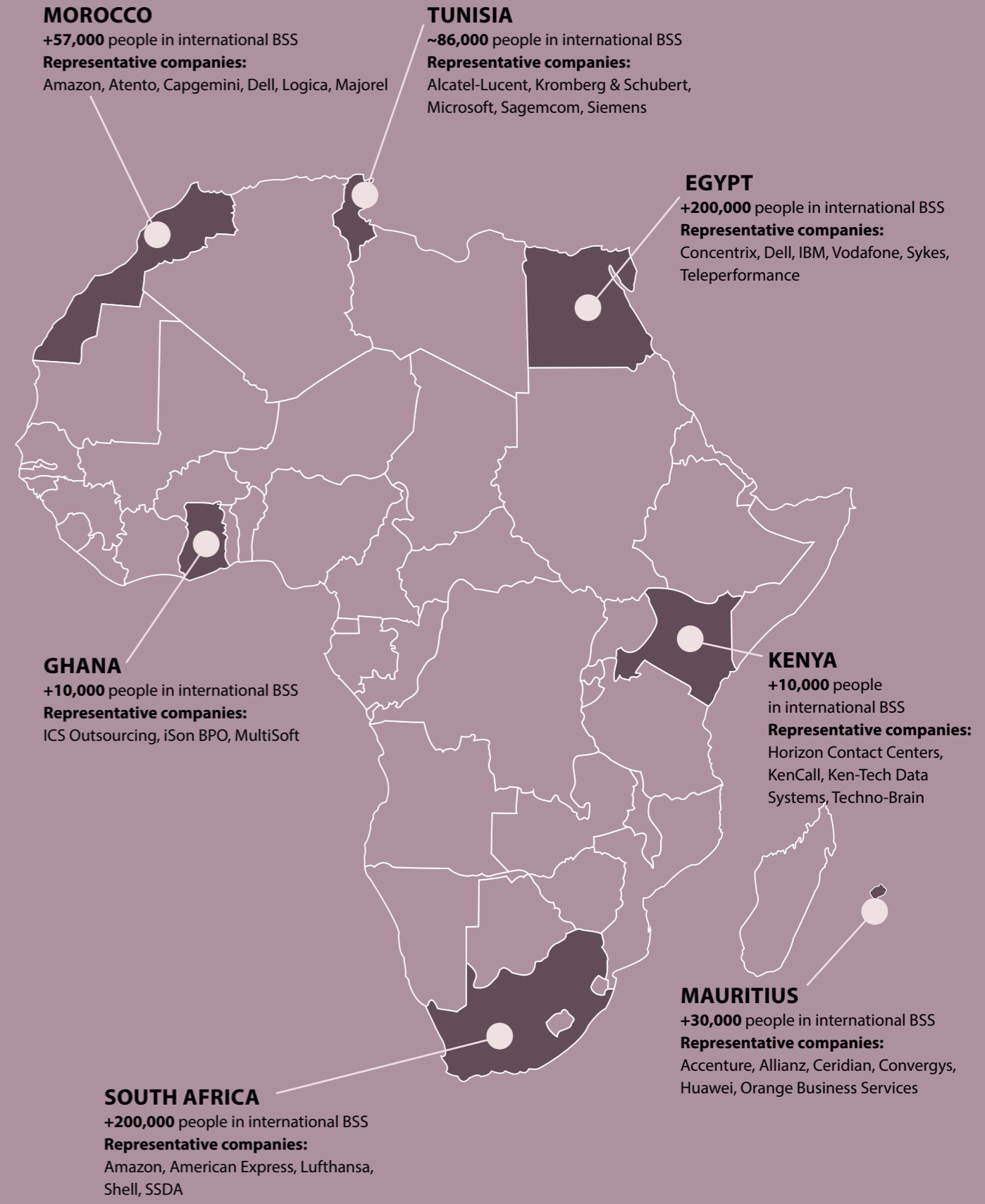
Clearly, the need for political stability is not a strong argument to rule out Africa as an option for the BSS.

THE BIG THREE & MORE

When it comes the larger BSS clusters in Africa the "Big-Three" are Egypt, Morocco and South Africa. A conservative estimate puts their number of people working in international business services at 457,000.

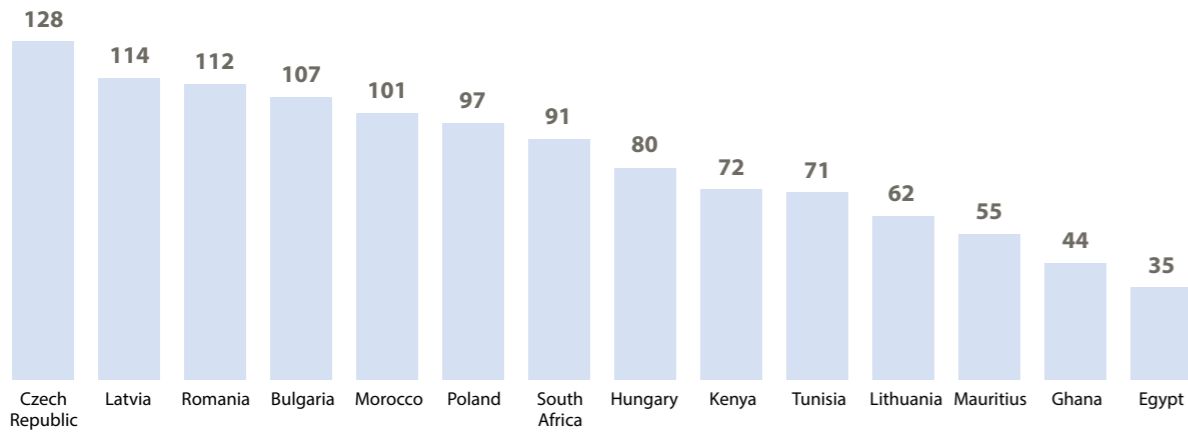
But there's more. For example, the likes of Ghana, Kenya, Mauritius and Tunisia.

BSS clusters



Indicative payroll costs

(Basket of BSS finance positions, CEE average = 100)



Source: Locationperspectives based on salaryexplorer.com.

TALENT?

European languages like French and Portuguese are easily found in many coastal countries. Overall, English is more prevalent throughout the region. It also is the official language for roughly 67 million people in 16 countries.

The number of university graduates – a key sourcing pool for the BSS – in the “Big Three” amounts to around 600,000 annually period by way of comparison: the number of graduates in Central Europe (only the European Union part of it) totaled 871,200 in 2018.

In Egypt alone yearly around 270,000 people graduate in business processing related fields and IT. Some call that a BSS recruiters’ nirvana.

The region’s digital embrace is more than promising and goes well-beyond universities. A 2019 study by specialists Briter Bridges and the GSMA Ecosystem Accelerator identified 618 active tech hubs across the continent, up 40% from the previous year. Such hubs offer a variety of facilities and support for tech and digital entrepreneurs. They include incubators, accelerators, university-based innovation hubs, maker spaces, technology parks, and co-working spaces. Their growth over the last years has been fueled by a torrent of venture funds, development finance, corporate involvement, as well as ever-growing, innovative communities.

COSTS

BSS wage cost vary significantly from one African country to the other. And like in Central Europe, local talent

demand-supply imbalances can lead to important in-country differences.

Countries like Morocco and South Africa tend to have wage costs close to the CEE average (see illustration). Other African BSS destinations will typically offer more significant cost arbitrage opportunities. But just like in Central Europe, the magnitude of such opportunities can significantly vary from one skill-set to another.

BREADTH OF SERVICES

True. The majority of African BSS sites deliver customer relationship services to domestic or sub-regional markets. This may not offer the best ecosystem for BSS companies looking beyond Central Europe today.

But there are specific countries that can easily match their European counterparts. For example, take Tunisia. The country counts around 34,000 jobs in the BSS/offshoring sector. Reportedly, ITO and R&D/KPO account for 20 and 39 percent respectively. It has attracted IT operations from the likes of Cisco, Huawei, IBM, Microsoft and Siemens. By comparison the percentage of Hungarian BSS sites reportedly engaged in IT and R&D is 11 and 9 percent respectively.

Take HR processes as another example". By proportion of BSS centers hosting HR processes, Egypt is fully comparable to Latvia, and significantly ahead of Bulgaria.

SUPPORT TO THE SECTOR

Throughout the continent, governments and sector organizations have developed BSS development strategies. Some

counts report of more than 70 of such plans throughout the region. Implementation has been stalled for many of them. Reasons vary, but lack of government persistence combined with too high expectations prevail as causes for aborting initiatives.

Still, the “Big Three” and a handful of other countries have more than managed to grow their BSS.

PROOF OF CONCEPT?

Companies like Lufthansa, Mastercard, Microsoft, PepsiCo and P&G have established their “captive” centers in the region. Their decisions are paralleled by outsourcing services providers like Computacentre, Majorel, and Teleperformance.

Vodafone has concentrated its global RPA/AI development capability in its Cairo hub.

It could just well be that Africa offers BSS companies more than merely an overflow capacity for their Central European operations.◆

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