



THE PHILIPPINES: A LEADING DESTINATION FOR OFFSHORE PROCUREMENT SERVICES

By: JOHN YUVA
Senior Writer
Institute for Supply Management™
Tempe, Arizona

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About the Institute for Supply Management (www.ism.ws)

*Founded in 1915, the **Institute for Supply Management™ (ISM)** is the largest supply management institute in the world as well as one of the most respected. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities and education. ISM's membership base includes more than 45,000 supply management professionals with a network of domestic and international affiliated associations. ISM is a not-for-profit institute that provides opportunities for the promotion of the profession and the expansion of professional skills and knowledge.*

About TransProcure (www.transprocure.com)



***TransProcure** is the leading global procurement solutions and services company headquartered in Manila, Philippines. By leveraging its presence and experience in the Asian region, TransProcure is at the forefront of business process outsourcing (BPO) - Procurement Services. It helps many organizations around the world reduce cost through various spend Management and procurement programs in both technology and services. Because of experience, scalability, and cost advantage, it is leading in offshore procurement services delivery. TransProcure has successfully engaged with multinational and local Asian companies in procurement initiatives along various industries. It extends procurement consulting services, education and training programs, strategic sourcing, supplier services, eProcurement and eSourcing implementation, HelpDesk support, offshore transactional procurement, BPO-procurement, international purchasing offices, trading house, best cost country sourcing, e-Catalog production, executive search and staffing in supply management. TransProcure can be reached via email at info@transprocure.com.*

The Philippines: A Leading Destination for Offshore Procurement Services

As continuing cost pressures drive companies to do more with less, the spotlight is turning toward supply management, resulting in firms focusing on their core business and identifying the best destination for their services requirements. One significant trend emerging is overseas supply management outsourcing to less developed countries like the Philippines. Companies in the know are moving several transactional, tactical, and even strategic and technology operations (e.g., accounting, legal, call centers, IT, shared services, etc.) offshore and reaping the benefits. Overseas supply management outsourcing is a powerful weapon that many leading companies are using to create and build new and strategic competitive advantages, beyond just the price factor.

TransProcure's Vision

Inside the bustling corporate offices of the RCBC Plaza Building in Makati City, Philippines, an image of the new economy can be glimpsed. Among these dynamic workplaces is TransProcure Corporation, a global procurement services and solutions company headquartered in Manila. TransProcure is positioning itself for what it considers the next trend in offshore business process outsourcing (BPO) — procurement services. Charlie Villaseñor, president and chief executive officer of TransProcure, envisions the Philippines as the hub of overseas supply management outsourcing. This vision is part of the company's strategy in developing the country as the "procurement capital of the world."

The Philippines' Unique Advantages

The Philippines is a leading provider of call centers, accounting, human resources and many other BPO services. Supply management is just the next page in this success, says Villaseñor. TransProcure is well positioned to serve a large untapped market by leveraging the country's unique advantages:

- ◆ The Philippines offers competitive labor costs, which is about one-fifth of U.S. rates. The workforce is known to be highly motivated with higher-than-usual wages, and thus performs better.
- ◆ There is a 94 percent literacy rate and the educational system provides more than 400,000 new graduates each year, of which over half hold IT, engineering and commerce degrees. A strong curriculum and four-year degree in supply management is also increasing in many university offerings, including C.P.M. certification.
- ◆ Filipinos are schooled in American English, and their English language skills are second to none in the developing world.
- ◆ The Philippines shares cultural, business and legal practices with the United States, which allows quick understanding and adjustment.
- ◆ There is a good telecommunications and property infrastructure to support extensive outsourcing operations. The rates have become competitive as well.
- ◆ The Philippine government has an explicit policy of encouraging outsourcing business in the economy. Fiscal and tax incentives are given to foreign and outsourcing firms.

"Being in the Philippines has worked as an advantage for us so far," says Villaseñor. "We have been able to work hand-in-hand with customers and partners in Asia because of our existing network and convenient time zones. As for Europe and North America, we execute our work during our workday, and they wake up to the results." He adds that overseas supply management outsourcing is a strategic decision that requires serious consideration in the changing landscape of the supply management profession and function. It should be no surprise that several studies are indicating that the rise of supply management outsourcing will be fast because it can't be ignored. Offshore outsourcing is merely the next logical extension of BPO that is happening, particularly when it does shift to a developing country like the Philippines.

Doing Business in the Philippines

A series of islands comprising an area slightly larger than state of Arizona, the Philippines is becoming an appealing option for U.S. businesses to establish overseas operations. With an improving economy and an understanding of U.S. culture, supply managers may find the country a successful alternative to other Asian locations such as India. While the manufacturing sector is present in the Philippines in such forms as textiles and electronics, the services sector is ripe with opportunity.

Despite some investment challenges, the Filipino government is seeking a true partnership with the private sector. Amar Vakil, principal for Lintas in Chicago, and founder of the Foreign Investment Promotion Council, believes that it's the right time to consider the Philippines as an alternative source to other countries in the region. "The Filipino government's welcoming practices and a promise for continued reforms can provide a new establishment (business) with favorable benefits now, rather than later," he says. "There are financial institutions (e.g., ADB, OPIC, World Bank) to help support an infrastructural investment to help lower the risks."

The following areas will provide a more in-depth look at the Philippines and the business opportunities that exist there:

- ◆ Philippine economic picture
- ◆ Calling on services
- ◆ Keys to success in the Philippines
- ◆ The future Philippine outlook

Philippine Economic Picture

While the 1998 Asian financial crisis left many countries in the region struggling to recover, the Philippines emerged only lightly scathed. Eugene Kublanov, vice president, corporate development for neolT in San Ramon, California, says the country continues to improve economically. For example, in 2000 the economy grew nearly 4.4 percent, and in 2003 it grew another 4.2 percent. Despite these economic gains, there's country. "With regard to infrastructure, Manila is quite developed and very westernized," says Kublanov. "However, travel to a second-tier city or even a short drive out of Manila and the physical infrastructure is severely lacking."

One major asset is the telecom infrastructure, which is highly regarded for a developing country. In the meantime, the Filipino government is working to improve other areas as well. "The government is definitely instituting measures to better collect taxes, invest in infrastructure, invest in the education system and really improve the economic environment," says Kublanov.

The economic challenges in the Philippines may sound vastly familiar to those occurring in Mexico. However, Kublanov says the challenges may be similar, but the two countries have different starting points economically." Many people don't realize that Mexico is in the top 15 largest economies in the world," he says.

Thus, what is the business appeal for U.S. organizations to source or establish operations in the Philippines? One reason is the unemployment rate, which is near 11 percent. The high unemployment rate opens opportunities for U.S. businesses. "What we've seen from clients sourcing in the Philippines is dedicated employees, low attrition rates and significantly lower salaries," says Kublanov. By putting those three elements together, organizations are building business success.

Calling on Services

U.S. businesses will also find that Filipino employees have a deep cultural affinity to the United States and are a largely English-speaking population. This has been a major advantage for call center operations over the last five years. Both outbound and inbound telesales as well as inbound customer service/technical support are common in the region. Vakil believes that if organizations

were to establish a call center in the Philippines today, it would be more profitable than choosing a region such as India. "Because the workforce has a deep business process knowledge and understanding, the operation would be more stable and reliable," he says.

However, because of the investment challenges, organizations working toward establishing a manufacturing plant, which requires a higher investment, may have a difficult time succeeding. "In terms of manufacturing, the Philippines does not have the same economies of scale compared to countries such as China, Taiwan, or Malaysia," says Vakil. "There is a considerable amount of red tape in establishing a supply base in the Philippines as opposed to China."

The other challenge for manufacturers is what's referred to as the "brain drain." Vakil explains that over the last 25 years, there has been a lack of mind-tier management in place compared to the skilled workforce. Graduates will work in the Philippines for four to five years, and then seek employment elsewhere such as the United States, Singapore, Australia or Saudi Arabia. "It's difficult within the Philippines to find a management candidate with 10-15 years of business experience," he says. "The challenge of establishing a large operation would be to retain the people within the country and keep them motivated."

Also, it should not be assumed that because the Philippines is located in the Asia-Pacific region, it's a prime candidate for information technology outsourcing. Kublanov explains that there's not enough incentive to choose the Philippines as opposed to India. Why? "Because in India you have a large body of skilled engineers for software development and the cost of those engineers is about 10-15 percent lower than those in Manila," he says. "For the companies that have established IT operations in the Philippines, it's used more as a hedge, a diversification play to their India IT outsourcing activities."

Thus, while the Philippines presents some manufacturing challenges, it is a popular services outsourcing and insourcing choice. For example, Kublanov says that there is an opportunity to leverage the largest population of generally accepted accounting principles (GAAP) certified accountants outside of the United States. "Organizations have used that talent in a number of ways to do some of their back-office accounting work, as well as other types of services from data and content conversion to claims processing," he says. From an insourcing perspective, the Filipino medical education system is heavily influenced by the U.S. education system. As a result, Vakil says that there has been an influx of Filipino nurses into the United States.

Key to Success in the Philippines

Whether an organization is sourcing or operating from the Philippines, to be successful requires identifying the right local partners and liaisons. This is accomplished with face-to-face interactions, which is very important in the Philippine business culture. Kublanov says that the Filipino business community is actually very small and concentrated. "By getting plugged into the right individuals or the right company, you typically see your network multiply exponentially." He adds that it's imperative to meet with the Department of Trade and Industry in the Philippines. "For companies that are looking to invest in the country or even source there, it's important to understand the tax and other incentives available to U.S. companies," explains Kublanov. "And I can't stress enough the importance to engage a knowledgeable adviser or third party to help navigate the service provider market." There are stark differences in the quality of the service providers in the country. Overall, however, the Philippines is and will continue to be an idea location for overseas ventures.

Future Outlook for the Philippines

If the current government demonstrates stability, generates quicker reforms and reduces the process time for private companies, the Philippines could be a strong contender in the global economy, says Vakil. With his interaction with delegates who represent the Philippines at the United Nations, he says there's a tremendous effort toward bringing in the private sector to partner with the government

to bring about a kind of “economic revolution.” “If things were to move in the right direction at the right pace, I wouldn’t be surprised if the Philippines is one of the top three countries for U.S. support services,” says Vakil.

With several elements to consider before embarking on a global venture, one thing is certain: the Philippines is growing economically and politically. While many multinational companies operate from Singapore or Sydney, Vakil believes that if U.S. organizations considered the Philippines as a regional headquarters for their supply chain, they would see a 40-50 percent reduction in their cost of international operations. Thus, there’s much to be gained. And as the economies of Japan and the United States improve, the Philippines is likely to grow and improve as well.

Philippines at a Glance

People

Population: 86,241,697 (July 2004 est.)

Government

President: Gloria Macapagal-Arroyo

Economy

GDP: purchasing power parity — \$390.7 billion (2003 est.)

GDP — composition by sector:

- ◆ Agriculture: 15 percent
- ◆ Industry: 35 percent
- ◆ Services: 50 percent (2003 est.)

Labor force — by occupation:

- ◆ Agriculture: 45 percent
- ◆ Industry: 15 percent
- ◆ Services: 40 percent (2003 est.)

Industries: electronics assembly, textiles, pharmaceuticals, chemicals, wood products, food processing, petroleum refining, fishing

Industrial production growth rate: 3.7 percent (2002 est.)

Agricultural products: rice, coconuts, corn, sugarcane, bananas, pineapples, mangoes, pork, eggs, beef, fish

Export commodities: electronic equipment, machinery and transport equipment, garments, coconut products, chemicals

Export partners: United States (24.7 percent), Japan (15 percent), Netherlands (8.7 percent), Taiwan (7.1 percent), Singapore (7 percent), Hong Kong (6.7 percent), Malaysia (4.7 percent) (2002)

Import commodities: raw materials, machinery and equipment, fuels, chemicals

Import partners: United States (20.6 percent), Japan (20.4 percent), South Korea (7.8 percent), Singapore (6.5 percent), Taiwan (5 percent), Hong Kong (4.5 percent) (2002)

Communication

Telephone lines in use:

- ◆ 3,310,900 (2002)
- ◆ *Mobile cellular telephones:* 15.201 million (2002)

Transportation

Railways: 897 km

Highways:

- ◆ *Total:* 201,994 km
- ◆ *Paved:* 42,419 km

♦ *Unpaved*: 159,575 km (2000)

Airports: 253 (2003 est.)

Source: CIA World Factbook

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