



Business Service Centres in Portugal

2019



aicep Portugal Global





There is no doubt Business Service Centres (BSC) are driving innovation and efficiency, reshaping the organizations around the world.

Captive shared service centres, BPO operations and hybrid models already play an important role in the Portuguese economy. This industry grew almost from scratch and witnessed an impressive growth in the last decade. Cities like Lisbon and Porto emerged as trendy and attractive destinations for these type of operations in Europe.

FDI has been the trigger to this progression as the country offers several key attributes: STEM-oriented workforce, language diversity, regular flight connections to major destinations in Europe and quality, safety and healthy way of living.

We are thus proud to present the first comprehensive survey of the Business Service Centres in Portugal, in partnership with IDC Portugal, describing the existing footprint, its main capabilities and its enormous potential for the future.

This study also reflects the importance of these cross-border services in employment, reaching almost 60.000 people, in technology and innovative practices such as automation and robotics, in the shift in work culture and labor practices and the massive opportunities it brings for knowledge and new qualifications.

Luís Castro Henriques

AICEP, Chairman & CEO



Welcome to the 2020 Business Services Centres in Portugal report, the first in-depth research to focus on the business services centres in Portugal, the report responds to the following questions:

- What are the main reasons to choose Portugal?
- What are the countries and regions served from Portugal?
- What are the key industries investing in Portugal?
- What are the main activities delivered from Portugal?
- How are business services centres best practices in terms of recruitment?
- How satisfied are organizations with their service centres in Portugal?
- What are the perspectives for the next three years?

In short, this report is the voice of the business service centres based in Portugal. It was based on a survey and interviews with business services centres in Portugal, more specifically IDC surveyed 74 service centres top managers, representing more than 50% of all companies with business service centres in Portugal.

The conclusion is that Portugal is one of the European countries where there is an accelerated growth of services centres, attracting a lot of foreign investment from several industries. Competitive costs, the availability of qualified talent and geographical proximity are key factors for this growth. The rationale is not a low-cost location but a value-for-money, where companies can profit from investment and turn into earnings.

Looking forward, and taking in consideration how Portugal is responding to the COVID-19 pandemic, its location, security, infrastructure and qualified talent, at IDC we believe that Portugal will continue to increase its competitiveness as a nearshore location in the following years, and companies worldwide will continue to choose Portugal for qualified talent at competitive costs!

Gabriel Coimbra

IDC Portugal, Country Manager



Portugal has been one of the fastest-growing countries in the attraction of foreign direct investments (FDI) in the Business Service Centre (BSC) industry. Many factors contribute to this performance, but it is fair to highlight two significant contributions.

First, the excellent work developed by AICEP in attracting investors, supporting them during the investment phase, and spotlighting the comparative advantages of Portugal. Second, hosting the Web Summit event put Portugal on the map of major league technology companies in the world. With the increased notoriety, it has become evident to many investors that Portugal has a set of key attributes that makes it an attractive destination for investment. The most important one is the high-quality of the higher education sector in the areas of science, technology, engineering, and math (STEM), which has been able to attract an increasing number of international students (more than 58.000 international students enrolled in 2019) and makes for a growing pool of highly qualified human capital.

Additionally, a positive attitude towards foreign investment, a strategic location, competitive costs, and high-quality infrastructures, all contribute to the success in attracting sizable investments in BSC. This study characterizes the state of play of the BSC ecosystem in Portugal and its recent evolution. More importantly, it provides insights on the experience of established BSCs, which, overwhelming, report high levels of satisfaction with their operations in Portugal. This translates into plans, of many companies, to expand activities, both in terms of FTEs and scope.

The opportunities are numerous as in recent years BSCs have become, to a large extent, the trustee of data and processes, which creates opportunities to expand activities in the domains of analytics, cybersecurity, and artificial intelligence, just to name a few. This study is an important and timely tool to understand and respond to the needs and aspirations of companies operating BSC in Portugal, and project the successful BSC/Portugal partnership into the future.

Fernando Bação
NOVA IMS, Professor

INTRODUCTION



Concepts and Methodology

INTRODUCTION

We have now started referring to “business service centres” as a vertical industry, since they have been growing as a considerable business area that is important for employment and the economy in general.

The concept of a service centre, as we see it, has evolved from two main ideas:

- Large business groups created shared organizational units specializing in specific administrative processes to serve several group companies, thereby obtaining gains in costs, efficiency and, hopefully, higher quality thanks to specialization.
- Professional service companies started building teams that specialized in certain processes, such as customer support, telemarketing and IT functions. They developed a range of outsourcing business processes for organizations interested in cutting costs, transiting from capex to opex, achieving greater flexibility and getting rid of non-core business activities.

Some of the service centres that were set up early during this trend continued to follow the same model, but the scope of functions they offered grew from lower value-added activities to more specialized processes requiring more skills (centres of competence). Service centres that were organizational units in large business groups developed into separate companies and broadened their scope and targets. Some of them started working outside the group and became profit-oriented companies serving internal and external clients.

This study considered centres serving firms in the same group (captive shared service centres, global business services or centres of excellence), serving external clients (business process outsourcing) or a combination of both.

This study targeted organizations with one or more service centres operating in Portugal and exporting all or part of their services. The companies covered had their headquarters in Portugal or abroad. Centres that only provided internal services in Portuguese for customers in Portugal were not included.

Primary Research

The study was mainly based on the results of the following primary research conducted from October to December 2019:

- An online survey delivered to 140 companies with 74 answers collected (53%)
- Eight face-to-face interviews conducted in Porto (4) and Lisbon (4)

Estimated numbers of companies and people in the sector

The industry figures are based on data and estimates developed by the AICEP in the last 5 years. They are based on information gathered from multiple sources, such as press releases, job offers, media and companies. All these data are kept fully confidential and for statistical purposes only. They do not reflect an accurate or extensive overview of the sector, though they do provide an estimate of its current size.

Country: key figures

INTRODUCTION



Population: **10.3 Million**
GDP Growth: **2.2%**
Unemployment rate: **6.7%** (Q4 2019)
Inflation: **0.3%**



TALENT POOL

Students in Higher Education: **385,000****
Graduates: **80,000***
STEM Areas: **30%****
Foreign Students: **53,000****
Universities: **287**

Values from 2019 * 2017/2018 ** 2018/2019



Qualified professionals at competitive costs, geographical location and easy connections with universities for attraction of highly qualified employees for service centre operations are referred to as key factors for investing in Portugal.

Sector: key figures

INTRODUCTION

The sector is very dynamic with a continuously growing number of new companies setting up their service centre operations in Portugal.

Key data at the end of the first quarter 2020:



Number of companies:

140



% foreign companies:

92%



Number of FTEs (Full Time Equivalent):

59,500



Number of sites:

158

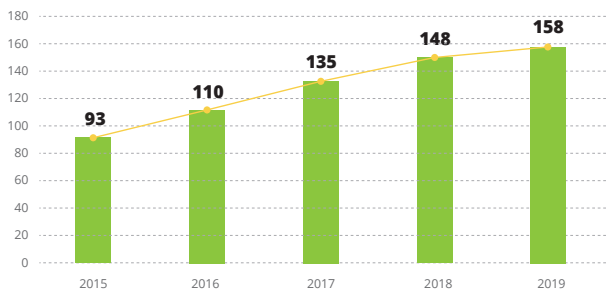


Average size (number of employees):

370

Source: AICEP, 2020

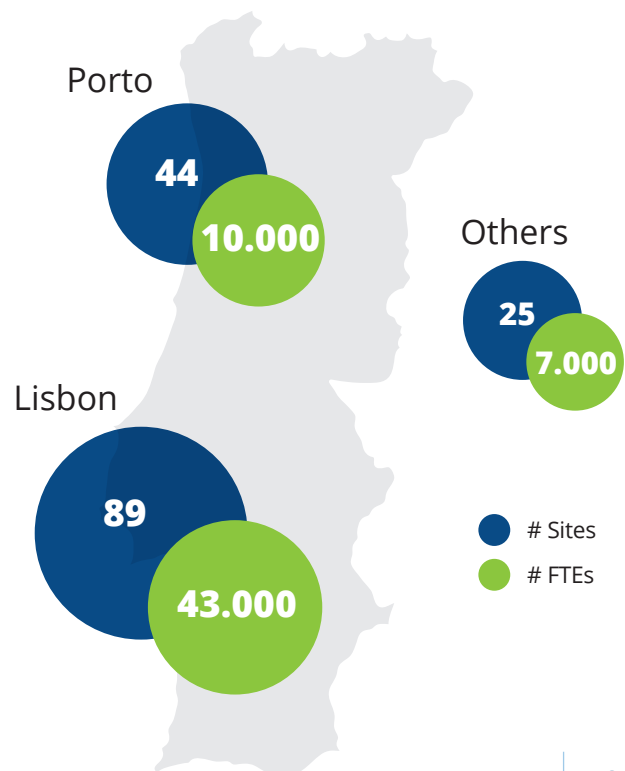
The number of sites grew around 70% from 2015 to 2019:



Source: AICEP, 2020

As expected, the biggest cities, Lisbon and Porto, are the main target locations for setting up service centres.

However, interest in other locations is growing.



SURVEY RESULTS



Location is key

SURVEY RESULTS

Companies are choosing Portugal for qualified talent at competitive costs

The location of a service centre results from an evaluation of a number of relevant factors, such as geographical location, talent availability and economic factors. Portugal is considered a significant player in most of these key areas.

Portugal is one of the European countries where there is an accelerated growth of service centres, attracting a lot of foreign investment from a number of industries and sectors. Competitive costs, the availability of qualified talent and geographical proximity are key factors for this growth. The rationale is not a low-cost location but a value-for-money country, where companies can profit from investment and turn it into earnings.

Located at the intersection between Europe and USA, with a compatible time zone, Portugal has been increasing its competitiveness as a nearshore location.



Good infrastructures, ease for setting up a new business and successful case studies were also pointed out by many companies as key advantages in choosing Portugal. The competitive costs have relevant weight, but most companies referred to the availability of qualified people as a key factor.

The ability to attract foreign talent and an industrial presence in Portugal is also among the arguments referred to, in addition to other factors such as flight connections and quality of telecommunications.

What were the main reasons to choose Portugal as a location for a Service Centre?



Source: Business Service Centres Survey, n=53
Respondents were asked to choose 5 reasons and rank them from 1 to 5 (1 being the most important)
The graph shows the weighted average ranking and the percentage of respondents that picked the reason.



Several companies said that Portugal was not chosen for being a low-cost location, as other locations fulfilled this criterion. Value for money was the key element differentiating Portugal from other European and non-European locations.

Big cities are preferred but investors are discovering other possibilities

Although most companies operate only one centre in Portugal, 15% of them (a relevant percentage) said that they had more than one service centre in the country.

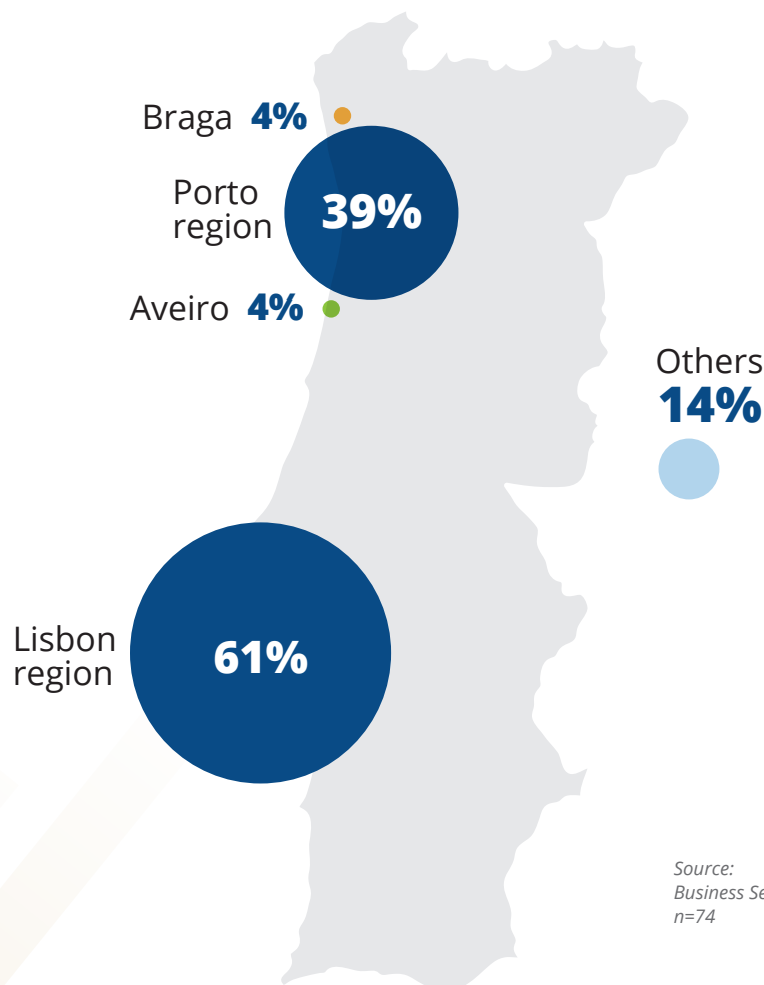
Lisbon is the main city chosen for the location of service centres, while Porto is the second option with 39%.

In addition to Aveiro and Braga, which have the third and fourth highest numbers of service centres in Portugal, there are centres located in the North (Vila Nova de Cerveira and Ponte de Lima), Centre (Viseu, Tomar and Santarém) and South (Beja, Évora and Loulé).

14% of service centres in Portugal are now outside the two main hubs and Second-tier cities.

The general opinion is that there is increasing dispersion throughout the country, especially visible in the centres established in cities in the countryside in the last five years, taking advantage of certain benefits in these locations.

Where are your organization's Services Centres located?



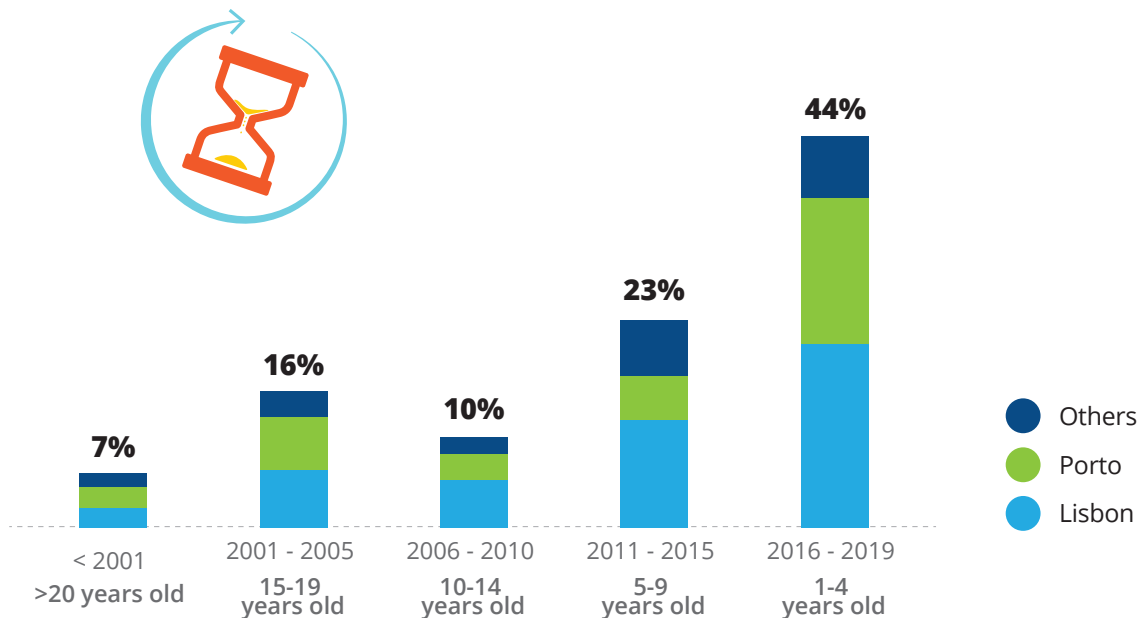
Source:
Business Service Centres Survey,
n=74

Fast-tracked growth

Since 2015, there has been an explosion in the number of service centres in Portugal. 44% percent of them were set up in this period, after years of moderate growth, which accelerated as of 2011. The economic crisis in 2008/2009 had a negative impact and the number of new service centres set up in Portugal decreased. More than 60% of service centres have been set up in the last 10 years and only 7% have been in operation for more than 20 years, which clearly shows the level of maturity of this industry.

As mentioned previously, the location of large centres outside big metro areas is a growing trend. In the last four years centres outside Lisbon have grown more than the number in the capital, and there are currently as many centres in Lisbon as in the rest of the country.

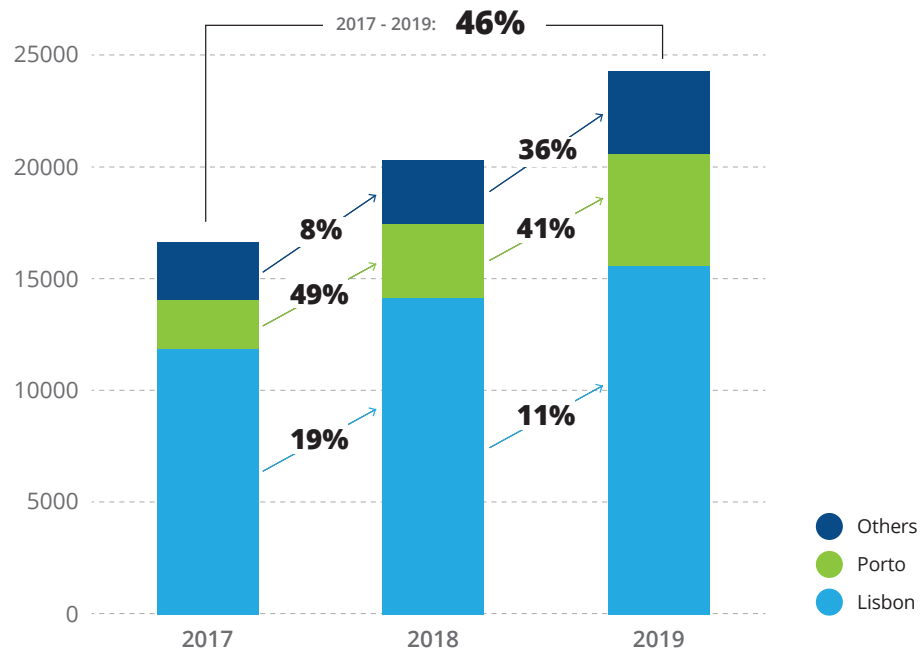
When was the Centre established? (% of Centres created in the period)



Source: Business Service Centres Survey, n=62

Following the growth in the number of service centres in Portugal, there was a significant increase in the number of jobs created (FTE=full time equivalent). The numbers show that there was 46% growth between 2017 and 2019 and mainly in areas outside Lisbon.

How many FTEs have there been at each centre in the last three years?



Source: Business Service Centres Survey, n=62



Companies are investing in Portugal fast. The general opinion is that the market in Lisbon and Porto is reaching maturity. There is still a space for growth, mainly outside the big urban centres. According to established companies, new investors must carefully consider all factors in each location before making a business plan.

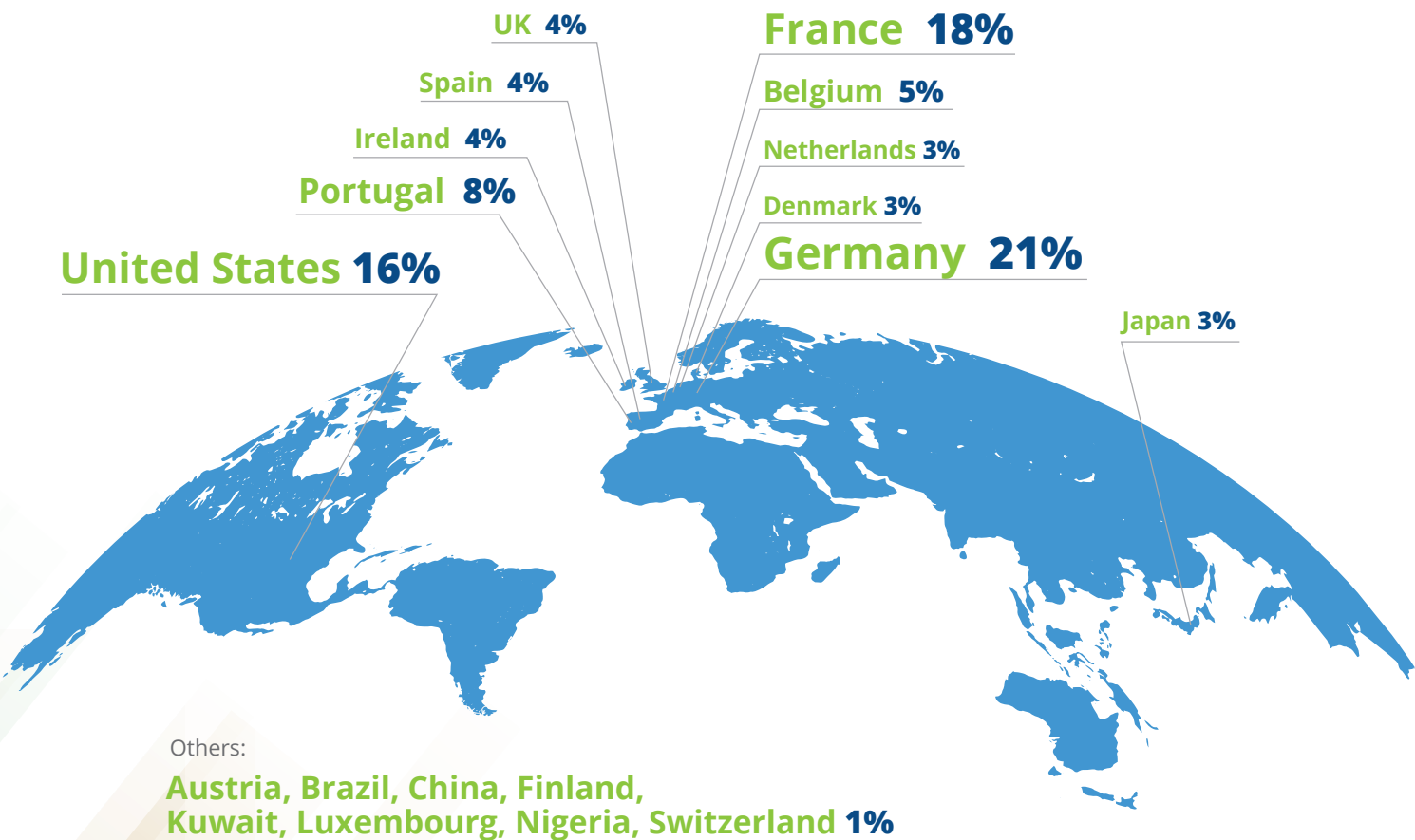
Corporate Background

SURVEY RESULTS

Nearshore investments

Portugal is increasingly on the radar of large multinationals looking for a place to invest in their service centres, competing directly with offshore locations and other traditional outsourcing countries. In terms of HQ location, companies from European countries are more likely to choose Portugal to locate their service centres and account for 76% of countries of origin. Germany (21%) and France (18%) are at the top of the list, but there is also a significant presence of U.S. companies (16%).

What is your organization's country of origin?



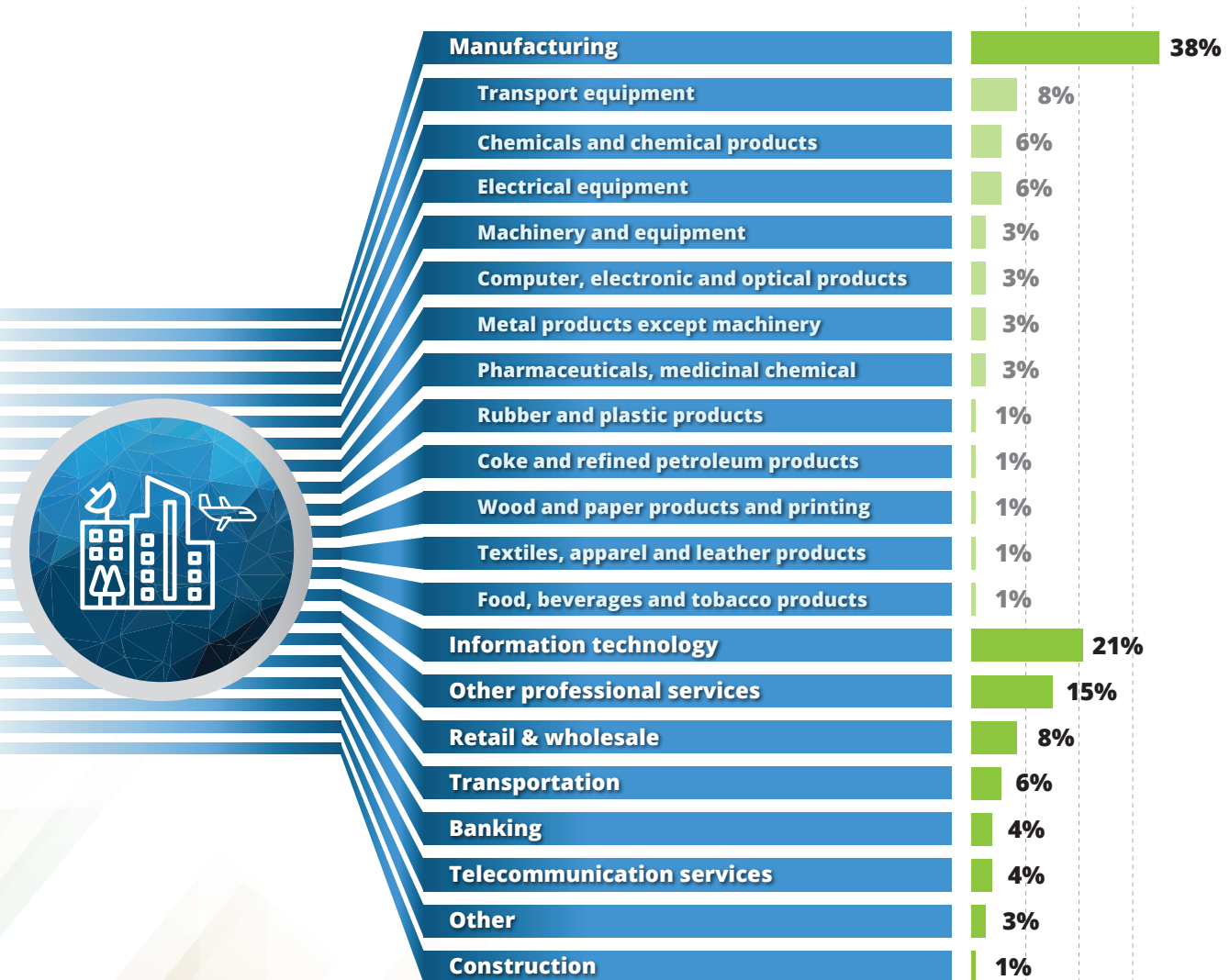
Source: Business Service Centres Survey, n=74

Manufacturing companies have an important weight

The respondents in the study belonged to different organizations from a wide range of sectors. Manufacturing (especially automotive) and IT were the most representative industries.

Professional services were third on the list, with 15%, followed by retail & wholesale with 8% and transportation with 6%.

What is your organization's primary industry sector?

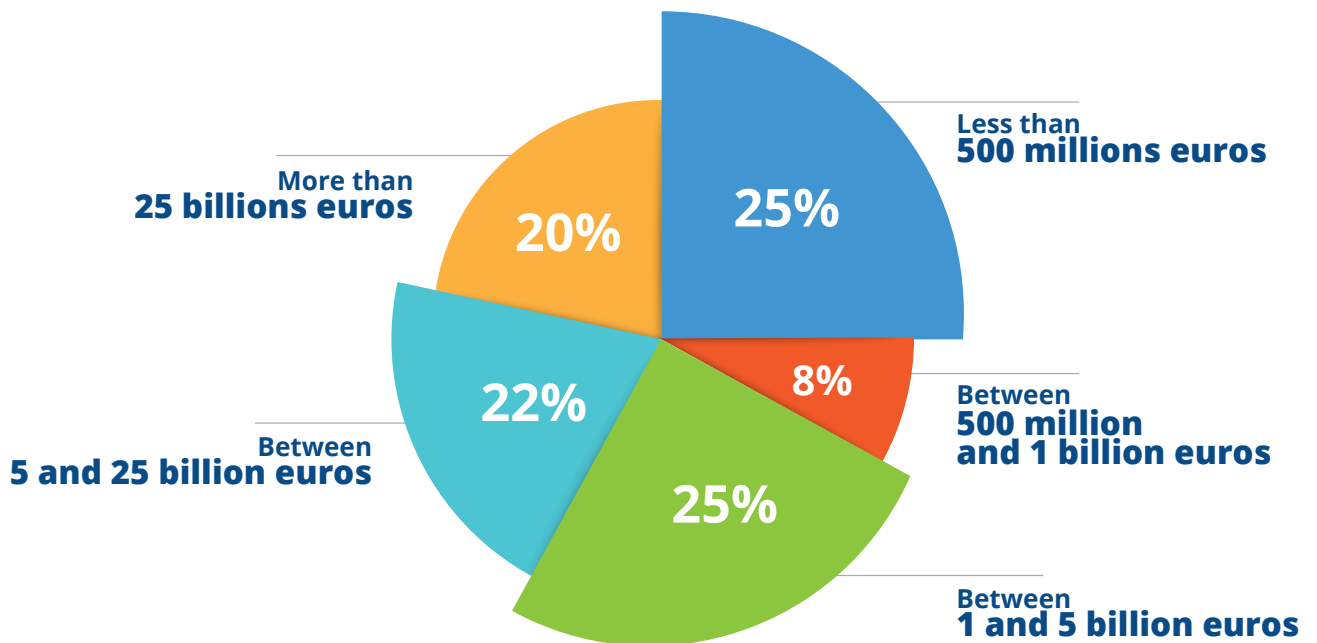


Source: Business Service Centres Survey, n=74

Investors are mainly large multinational companies

The study shows that 67% of the respondents with operations in Portugal have annual revenues above 1 billion euros, with 20% exceeding 25 billion euros per year.

What is your organization's annual revenue?



Source: Business Service Centres Survey, n=64



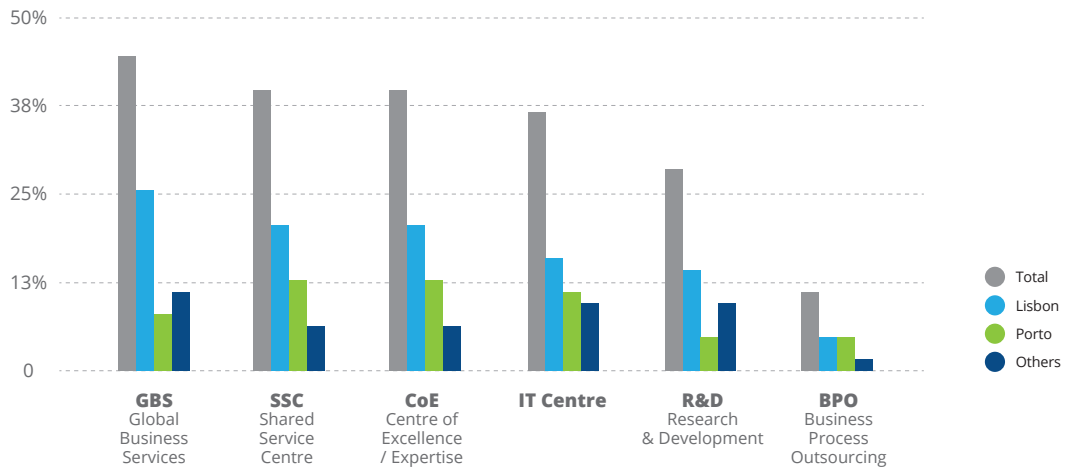
Coverage and scope

SURVEY RESULTS

Diversified and global coverage

Nearly 45% of the centres analysed consider themselves GBS (Global Business Service) and nearly 40% as CoE (Centres of Excellence), with high-quality services and high specialization.

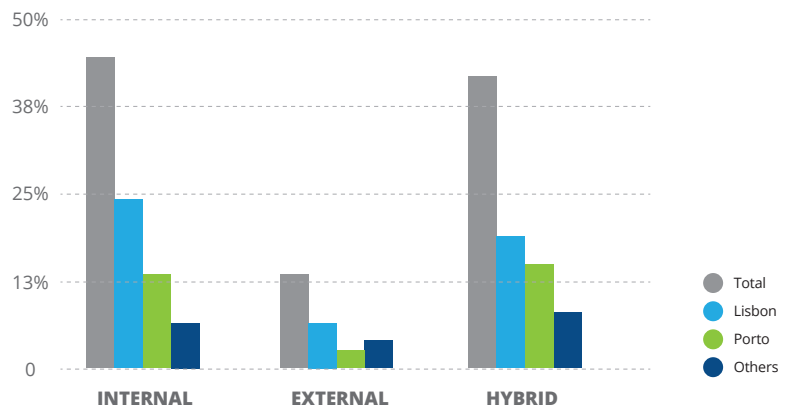
Which of the following best describes your Service Centre?



Source: Business Service Centres Survey, n=63 / Multiple choice

An analysis of the type of service centre shows that most centres are divided between exclusive services for their group and hybrid models. Few centres focus only on external services.

What type of customers are your Service Centre targeting?

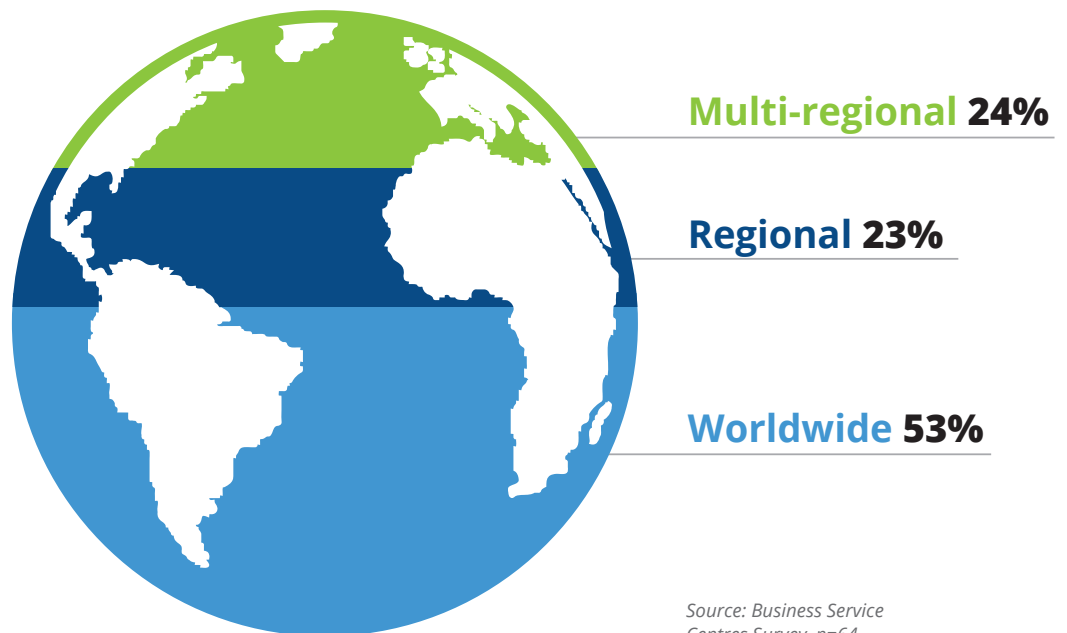


Source: Business Service Centres Survey, n=62

In terms of geographical coverage, 53% of the respondents indicated global reach, 24% multi-regional and only 23% regional.

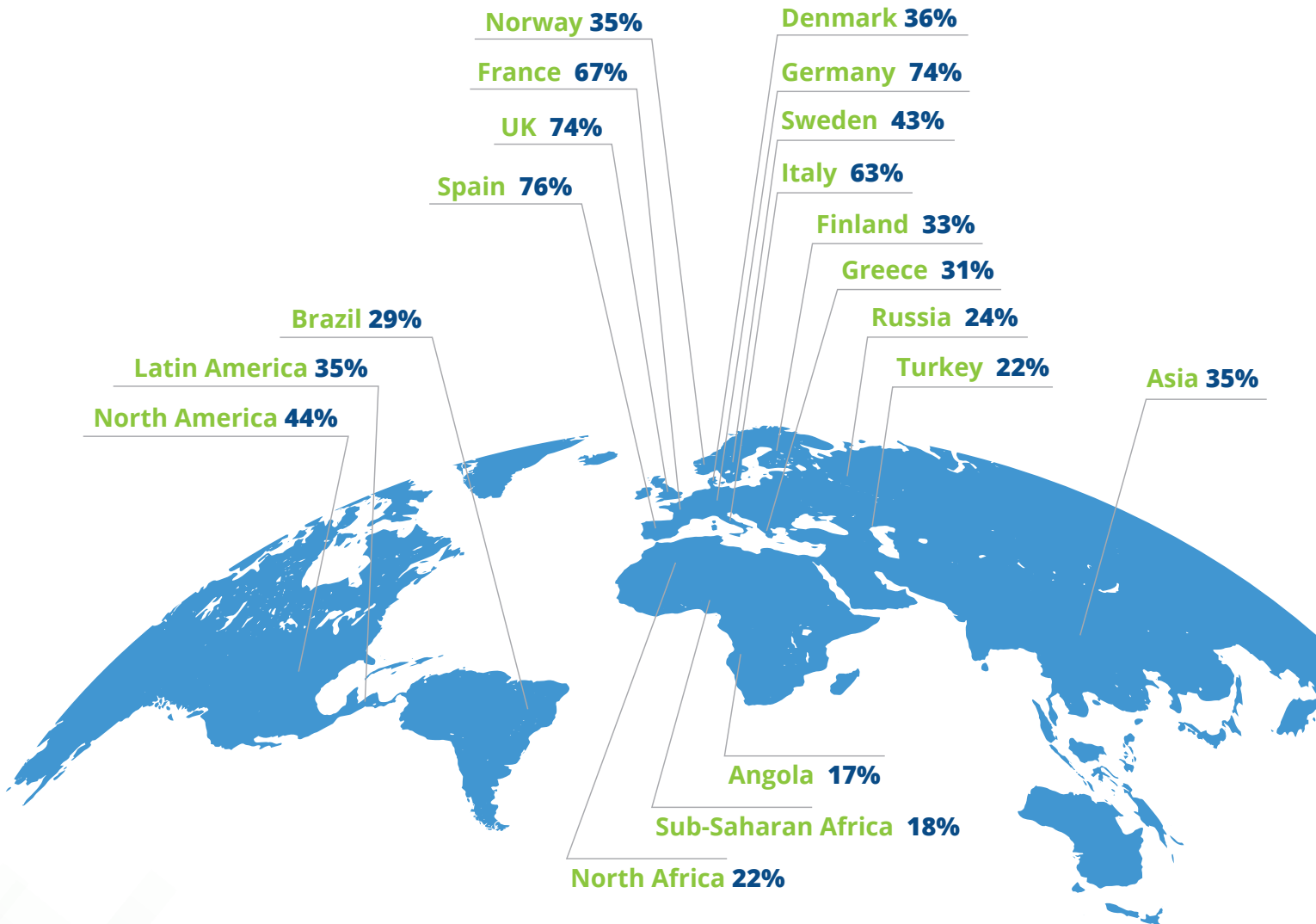
At country level, Spain is the main market covered, according to 76% of service centres, followed by Germany and the United Kingdom, both with 74%. France (67%) and Italy (63%) followed in a long list that also included North America, Latin America, Asia, North Africa and Portuguese-speaking countries.

What is the service centre's geographical coverage?



According to the data, for the great majority of the companies, more than 80% of the services provided are exported.

Countries or regions served outside Portugal:



Others:

Other countries in Western Europe 54%
Other countries in Central & Eastern Europe 47%
Other Portuguese-speaking countries 19%

% of centres serving the region/country
 Source: Business Service Centres Survey, n=62

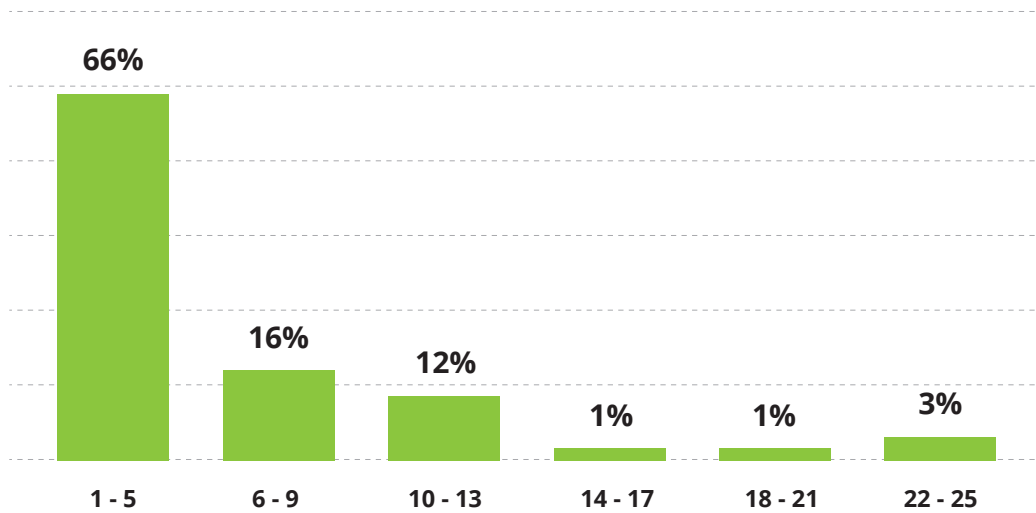
Multilingual services

Targeting a global market, service centres bet on multilingual support that covers services for different geographies, and this is one of the key advantages according to the respondents.

**In how many languages
does your Centre operate?**



Average: 5 languages



Source: Business Service Centres Survey, n=64

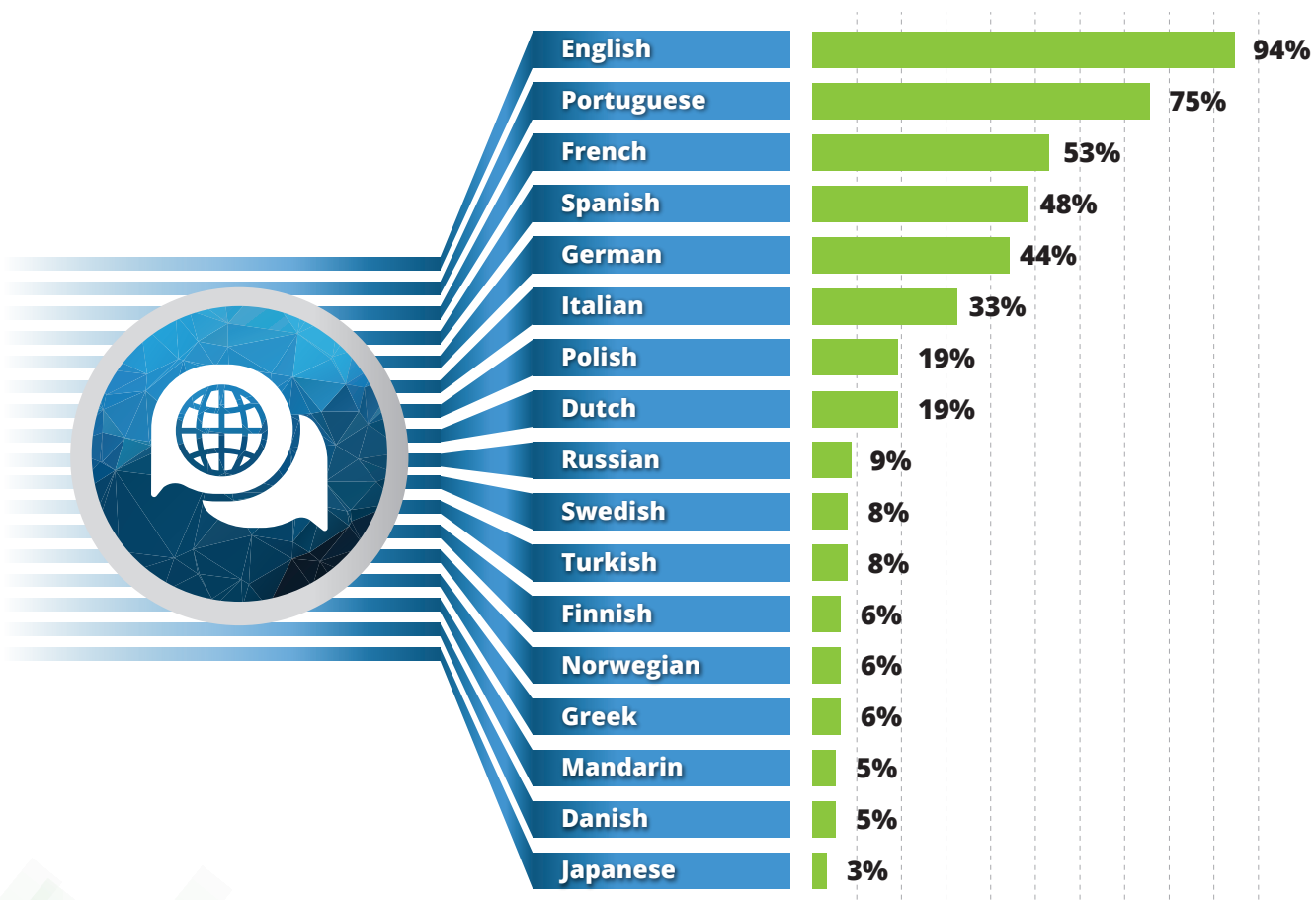


**Most centres (85%) have operations in more than one language.
Five languages on average.**

Global coverage leads to multilingualistic centres

Strong language skills are an important asset when providing cross-border services. Almost all the companies surveyed provide services in English (94%), French (53%) and Spanish (48%). Other languages include several other European languages and also Mandarin and Japanese.

How many FTEs provide services in the following languages?



% of centres serving in the language
Source: Business Service Centres Survey, n=57

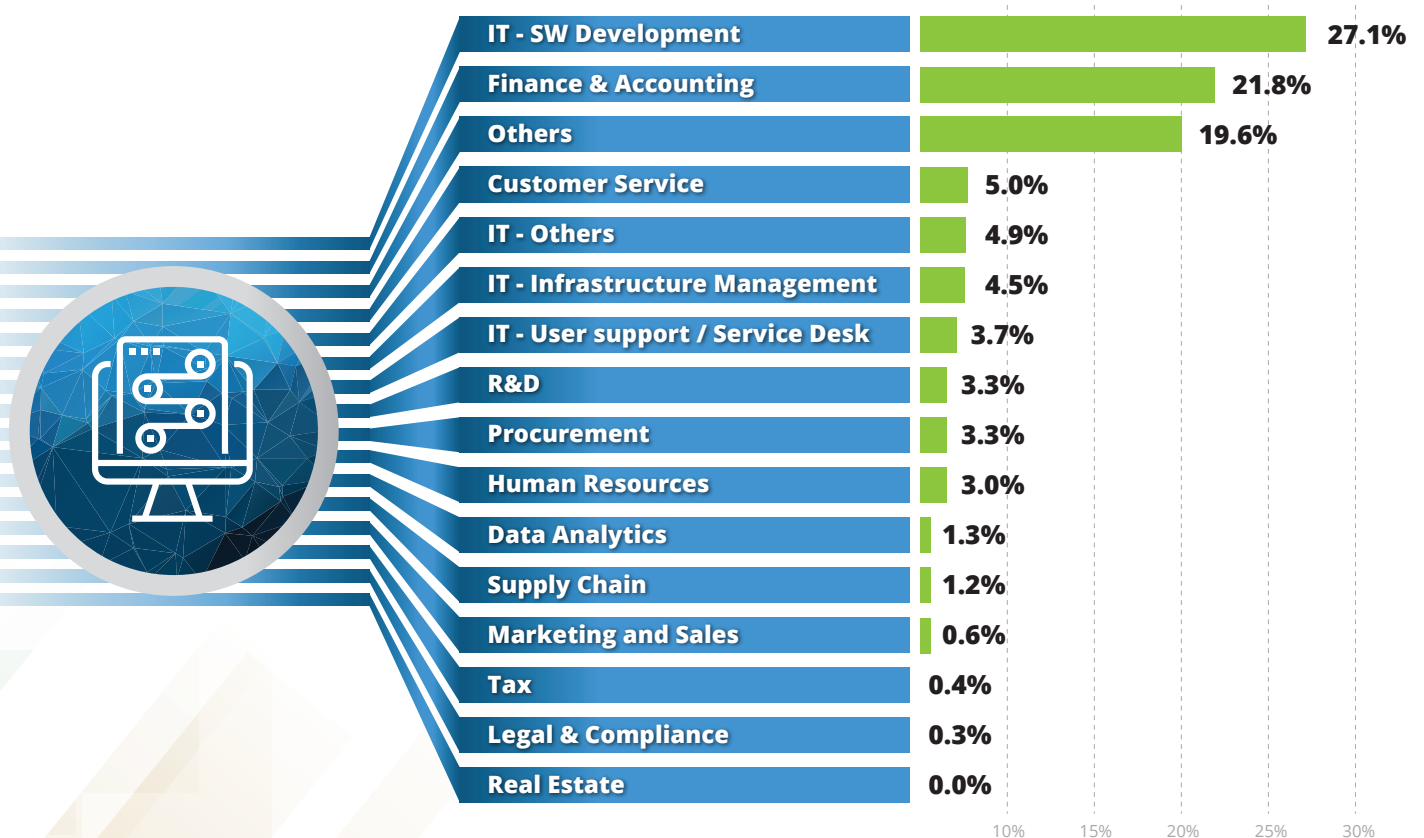


Some of the service centres in Portugal work in many different languages. There are cases of centres operating in more than 20 or 30. This readiness to adapt to new languages and proficiency in English are valued factors. Nonetheless, some of the interviewees said that language skills were sourced by recruiting foreign employees and Portuguese emigrants returning to Portugal.

Information technology and finance & accounting as the most common core functions

IT and software development are the most representative functions performed by the service centres surveyed, with 27%. This is followed by finance & accounting, with 22%, and others, with 20%, including actuarial services, factory operations, O2C, communication, robotics and sustainability. Less representative, but also relevant, with 5% each, are customer service, other IT-related functions and IT infrastructure management.

How many FTEs provide services in the following functions?

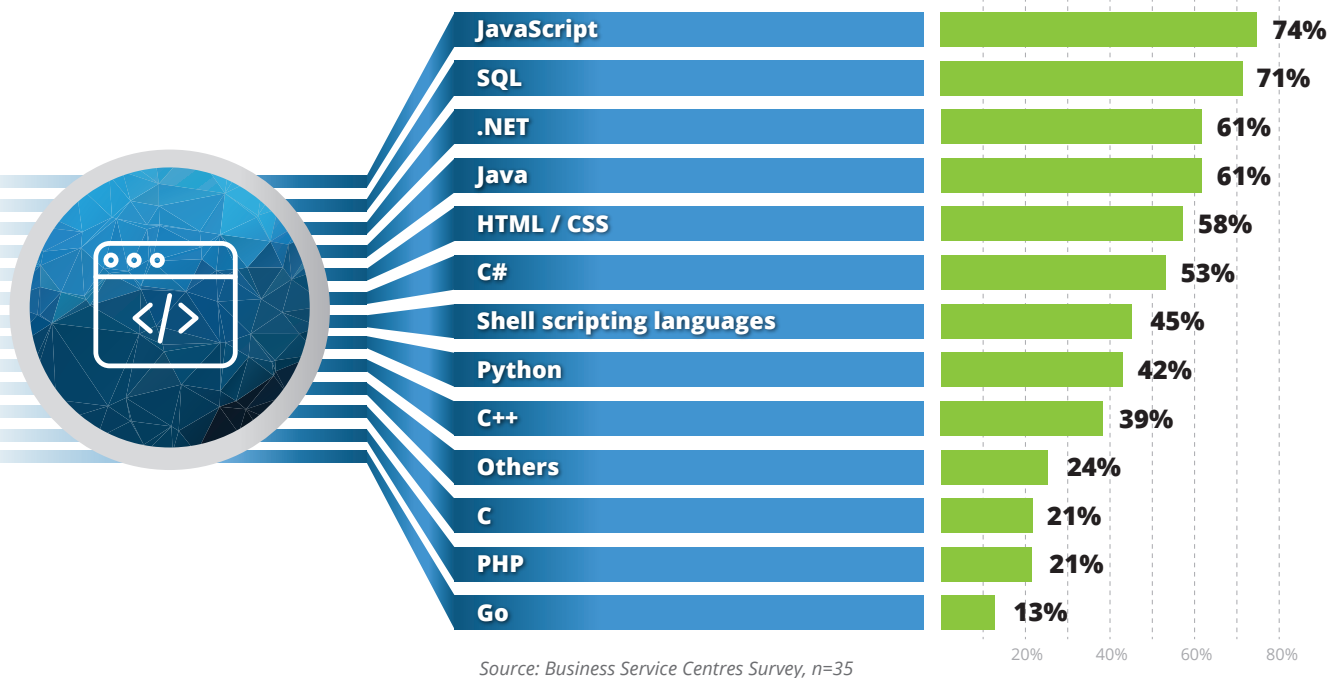


% of FTEs in each function
Source: Business Service Centres Survey, n=55

Popular programming languages in IT centres

The most common programming language at IT development centres is JavaScript, with 74%, though SQL also accounts for more than 70%. .Net and Java are used by 61%, while HTML / CSS and C# are above 50%.

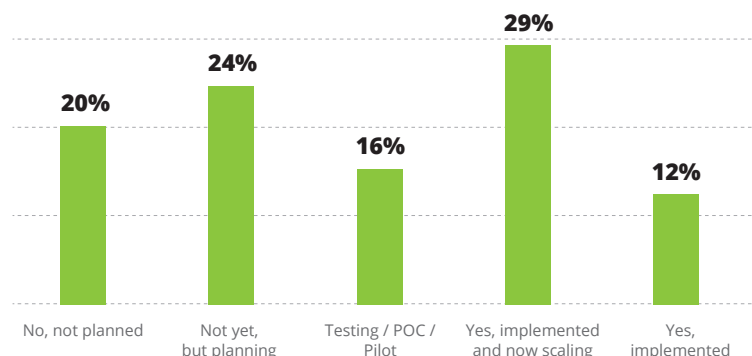
In the case of an IT Service Centre, which programming languages are used?



Robotic process automation (RPA): evolving at a good pace

The use of robotic process automation is growing and is being implemented at service centres in Portugal. About 80% of companies have RPA or plan to implement it. 41% of service centres say they have already gone ahead with RPA, with 29% already scaling up its use. Efficiency is the goal but most of the companies say this is an ongoing improvement.

Is Robotic Process Automation (RPA) part of your operations?



Source: Business Service Centres Survey, n=51

Talent, the most valuable asset

SURVEY RESULTS

Higher education and gender equality

The profile of service centre employees shows that there is a significant predominance of people with higher education, representing 85%. This figure confirms that Portugal has qualified professionals. Connections with universities make it possible to attract highly qualified employees to service centre operations.

Service centres are also a magnet for foreign employees, who represent 8% of all FTEs. In Lisbon the number goes up to 15%. The ability to attract foreign professionals is especially important for stepping up language skills.

What is the percentage of female workers?



43%

What is the percentage of workers with higher education?



85%

How many FTEs are foreign nationals, as a percentage of the total?



8%

Average age



32.5 years old

Source: Business Service Centres Survey, n=46

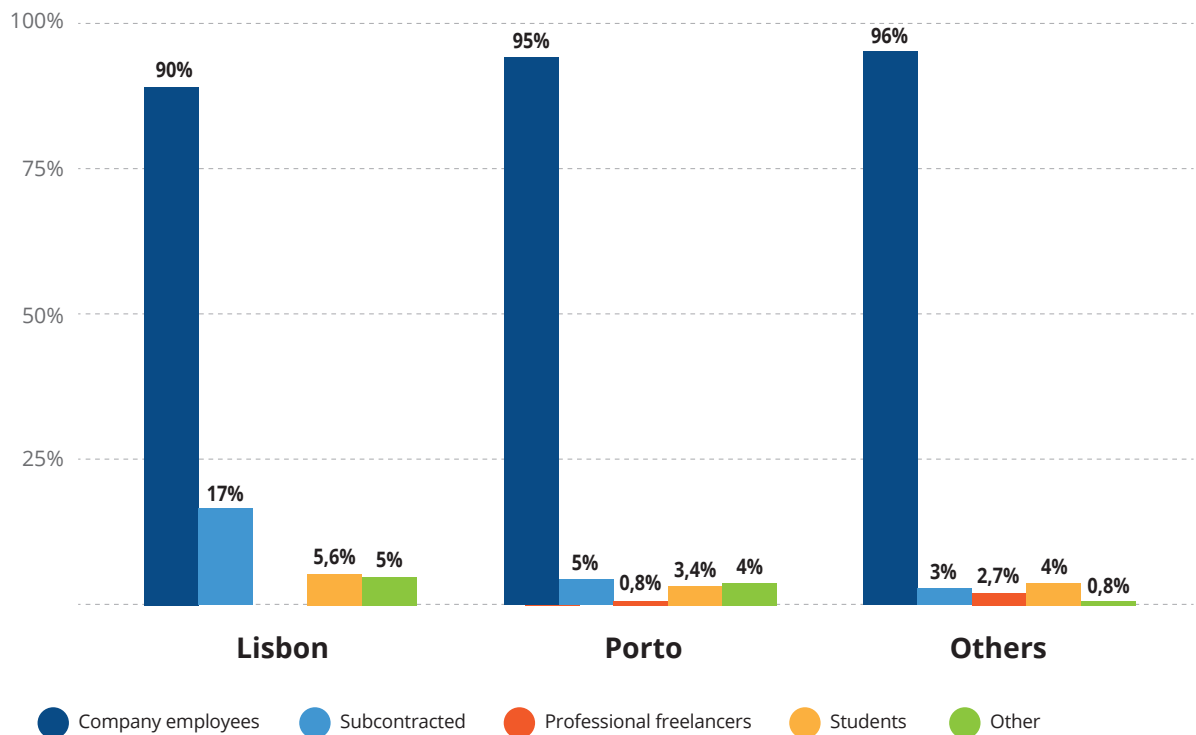


Gender equality is also a key point in service centres in Portugal. 43% of workers are female, which is a significant number, especially considering the weight of IT operations. At some specific centres the numbers go even higher, reaching more than 60% female workers.

Predominance of employment contracts

Most service centres' workers have employment contracts, though we also find subcontracting, freelancers and students, albeit in smaller numbers. It appears that the use of external contractors is more common in Lisbon.

What is the distribution of FTE's according to the following types of contract?



Source: Business Service Centres Survey, n=57
Average of responses



According to the interviewees, portuguese talent is recognized for being flexible, committed, highly qualified and focused on quality. Recent trends are flexible work schedules, remote work and mobility.

Several recruiting methods but universities play an important role

Availability of talent is one of the key factors in Portugal, and there seems to be no apparent difficulty in recruiting. Service centres use different strategies to pool the best talent directly from universities, but due to a considerable rise in the number of operations there is an increasing effort to retain the best employees.

Cooperation with universities is the main source for recruiting talent, though service centres also invest in training and career development as strategies to attract and retain employees. The use of recruitment firms and social media was also mentioned in some cases.

Among recruiting methods, companies also mentioned summer internships, ambassadors programmes and local tech communities.

The relocation of employees from other countries is considered a way to increase the talent pool in the service centre, as well as the use of recruitment abroad, with relocation packages offered.

What talent recruitment and attraction strategies does your organization follow?



Source: Business Service Centres Survey, n=47

The average attrition rate is 13% in Lisbon and 14% in Porto. For the ones with higher attrition rates this is a main factor of concern. Attrition rate is higher in some roles, such as administrative functions, where employees are younger and constantly challenged by new companies entering the sector. Technology companies have a lower turnover due to the attractiveness of their jobs.

Wages are not the most relevant factor for changing or retaining jobs, so service centres have to be prepared to develop different strategies to attract younger employees.

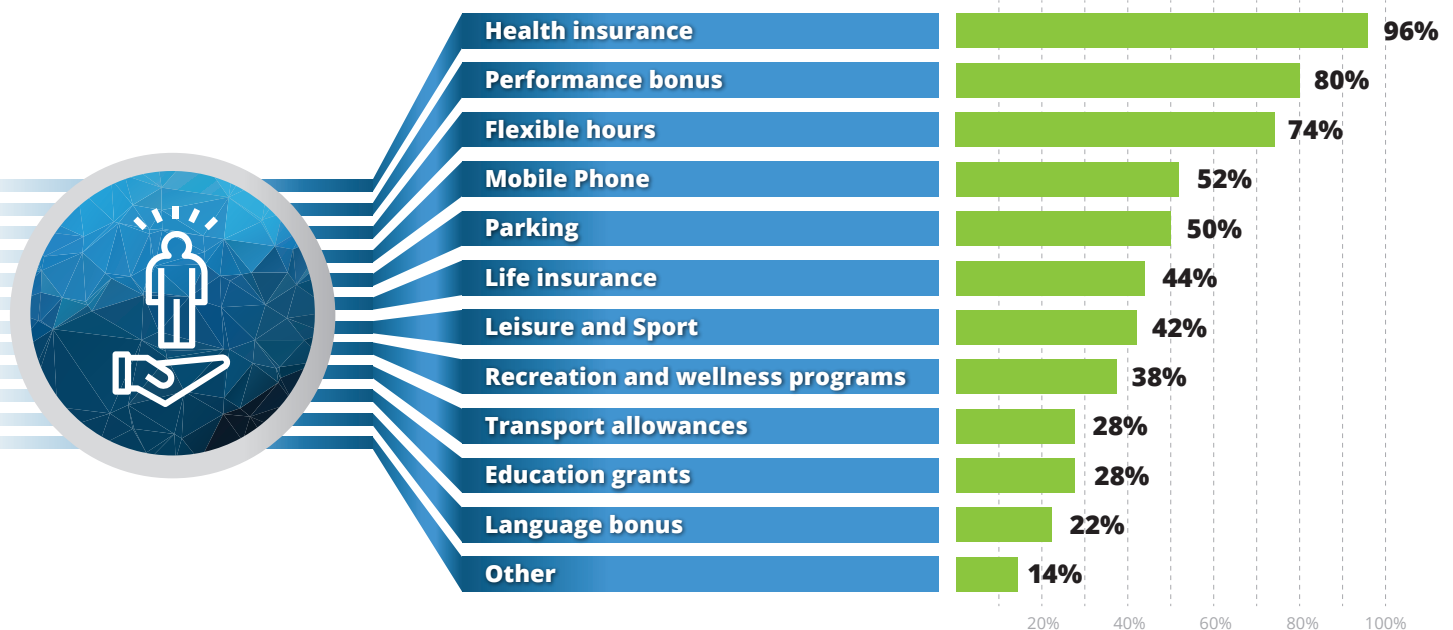
A good management of benefits offered can make the difference

The benefits offered to service centre employees are diverse. They include health insurance, performance bonuses, recreation and wellness programmes, education grants and transport allowances. Health insurance is the most common benefit and it is offered in 96% of the centres, followed by performance bonuses, in 80% of centres. Flexible hours and other additional benefits are also considered, such as mobile phones and parking spaces.

Other benefits include canteens, meal vouchers, fruit, water and coffee, and also the possibility of remote working one day a week.

As language knowledge is quite important, service centres offer an additional bonus for foreign languages. This can be as much as 5% to 30% of the base salary for employees who speak French, Spanish, German, Italian or Scandinavian languages.

What are the main benefits offered to workers?



Source: Business Service Centres Survey, n=50

Portugal is not considered a low-cost country, though it maintains a competitive advantage when compared to other European locations. In recent years, following a period of economic growth, salary levels have stabilized in Portugal, with a recent increase in minimum wages.

The companies surveyed indicated an average of 3% salary increase, annually, in the last three years, which is in line with the market average in most companies in Portugal.

Salary levels reported by 20 of the 74 surveyed companies indicate:

- Entry level and junior positions paid between 15,000 and 21,000 euros a year
- Team leaders earning between 25,000 and 35,000 euros a year
- Managers and executives making from 42,000 to 72,000 euros a year

Seniority at service centres follows a common structure, with 69% at entry Level and in junior positions, 22% as team leaders and 9% as managers and executives.

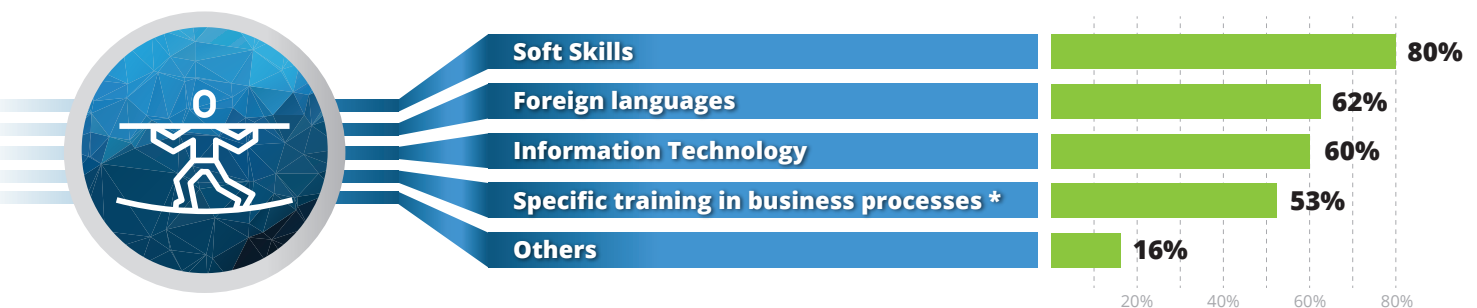


Investment in training

Most service centres invest in in-house training to improve skills. However, some specific, mostly non-business-related skills are provided by external sources.

Soft skills are identified among training needs, mentioned by 80% of the respondents. Also, foreign languages and information technology are mentioned by a significant percentage. More than half of the service centres refer to specific business processes, such as order to cash, procure to pay, accounts receivable, etc.

What are the main training needs?



* Order to Cash, Procure to Pay, Accounts Receivable, Record to Report, Know Your Client, etc.

Source: Business Service Centres Survey, n=45



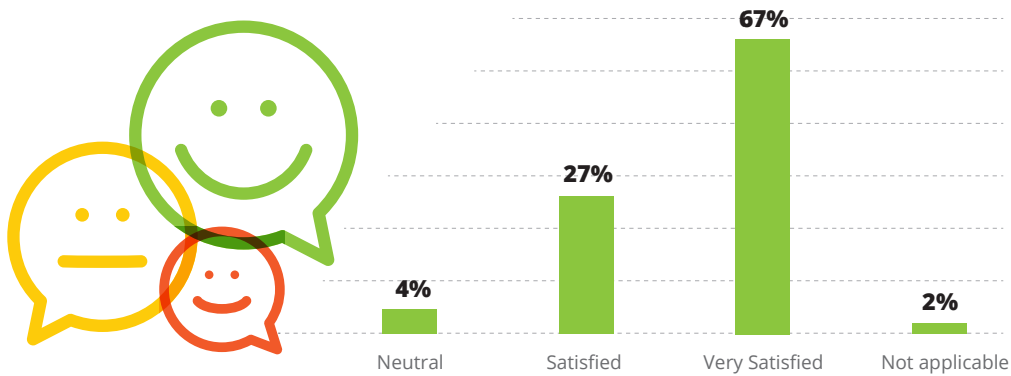
Service centres are also training centres. Most of the centres have development plans in place. This also creates a pool that is attractive for other companies. This is one of the reasons why retention strategies and benefits are so important.

Future: what's next

SURVEY RESULTS

The future ahead

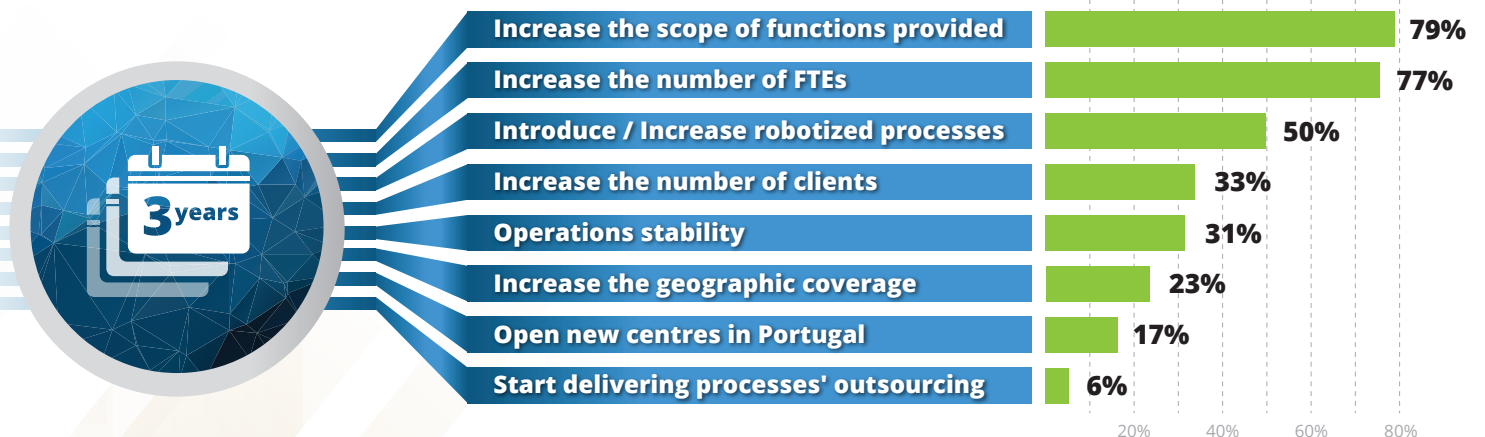
In your opinion, how satisfied is your organization with the Service Centres in Portugal?



Source: Business Service Centres Survey, n=49

Satisfaction with Portugal as a location is very high. 67% are very satisfied with their choice and plans for the near future include the development of existing centres, both in terms of the number of people and the scope of activities, making services more comprehensive. Increasing staff was mentioned by 77% of respondents, thereby confirming the possibility of stepping up business in Portugal.

How are you planning to develop your service centres in Portugal over the next three years?



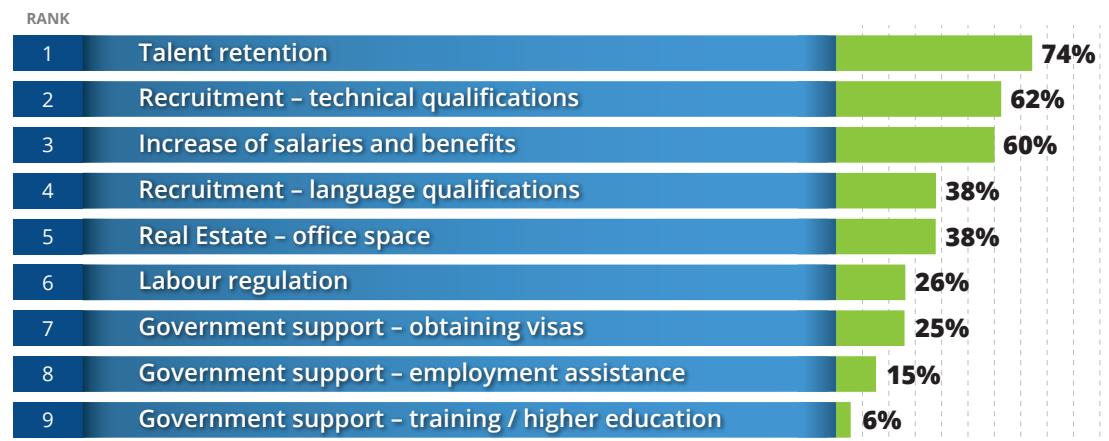
Source: Business Service Centres Survey, n=45

17% said that opening new centres in Portugal was in their plans. In some cases, they might convert them into smaller hubs, with specialized functions in areas of analytics or cybersecurity. Plans for development also include investing in process robotization, which is a continuous improvement. RPA can simplify and automate processes, thereby improving efficiency and focusing employees on higher-value tasks.

Main challenges: talent retention

Talent retention is one of the main challenges for service centres and was mentioned by 74% of the respondents. Recruitment of people with technical qualifications was also at the top of the challenges mentioned, along with increases in salaries and employee benefits. Pressure from the real estate sector in large cities, especially Lisbon and Porto, is one of the reasons why they are also turning to other locations.

In your opinion, what are the main challenges you are currently facing?



Source: Business Service Centres Survey, n=45



Locations outside large cities achieve higher talent retention rates, and many companies are opting for smaller cities for their service centres.



About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.



aicep Portugal Global

About AICEP

aicep Portugal Global - Trade & Investment Agency is a government business entity focused on encouraging the best foreign companies to invest in Portugal, as a one-stop-shop agency. It provides support services to foreign companies, counselling and coordinating contacts with Portuguese entities involved in investment processes. AICEP works as a Government business entity, flexible, with streamlined free of charge services, offering a dynamic approach focused on the client / investor and allowing direct negotiation with companies, through a tailored approach to their requirements.

AICEP is a single point of contact to foreign investors in all phases of the decision process:

- Enquiry-handling phase: provides comprehensive accurate information, data and benchmark reports;
- Site Location: provides different site proposals according to project specifications. Help partnerships with local entities;
- Fact-finding visits: organizes site visits to meet local authorities, recruitment firms, office space providers, universities, among others;
- After care: a key account manager will provide assistance on a regular basis.

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