



Davao, Philippines:

Making Waves as the Next Prime Spot for Outsourcing

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Can Davao City, Philippines be the next top outsourcing destination?

With the economic power it rightfully boasts of, alongside rich investments and being among the safest cities in the nation, Davao City is rising to become a competent contender in the world's offshoring industry. Recently, the city has been cited as the Philippines' top "Next Wave City" based on several capacity indicators. Simultaneously, it secured the 66th spot on Tholons' top outsourcing destinations, marking it as one of the world's most powerful outsourcing hubs.

How can information technology (IT) and business process outsourcing (BPO) professionals make the most of this prospect? This white paper explores how Philippine outsourcing is rapidly spreading outside Metro Manila and why investors are flocking to Davao City, one of the most economically dynamic cities in the entire country.



Philippines: 2015's top outsourcing destination

The previous years have been consistently favorable for the Philippines' outsourcing industry, with its capital region Manila going toe-to-toe with other top offshoring destinations such as Bangalore and Mumbai in India. The country's IT-BPO industry has seen its most laudable performance yet in 2014, posting an 18.7% revenue growth rate amounting to \$18.4 billion.¹ In fact, the revenues from the BPO industry is expected to surpass remittances from overseas Filipino workers as early as 2017.²

It is not surprising that this huge profit upsurge has fueled the Philippines' offshoring industry to expand even more, giving rise to new dynamic business sites that are equally capable of powering up the outsourcing industry. Among the locations most aggressive in meeting this demand is Davao City, consistently declared as one of the top Next Wave Cities in the country's outsourcing industry since 2008.³

Why outsource outside Metro Manila

Metro Manila remains the heart of the Philippine economy, owing to the presence of several multinational companies and outsourcing businesses. Although placing your business in the national capital can bring good results, there is a need for BPOs to expand to other sites outside this region. This is driven not only by congestion and the ballooning city population, but also by business leaders' desire to lessen attrition and turnover, move operations to less environmentally vulnerable locations, and find ample land space to establish a functional office.

These alternative sites also offer lower costs of living, which is ideal for both company owners and employees. And now that technology has crept virtually into most locations in the country, many emerging cities in the country can provide high-quality technology equipment and connectivity infrastructure. These budding outsourcing hubs are also home to thousands of potential employees who are fluent in English, digitally savvy, and well-trained in IT.

Davao City rises to the challenge

The Department of Science and Technology—Information and Communications Technology Office (DOST-ICTO) and the Information Technology and Business Process Association of the Philippines (IBPAP) together selected Davao City as one of the Philippines' Next Wave Cities in 2014.⁴ Next Wave Cities are the country's potential offshoring destinations that are continuously being groomed to be key players in the industry. They are also hoped to decongest Metro Manila as numerous businesses are continuously popping into the capital.⁵ Aside from Davao, other Philippine cities that made it to DOST's list of Next Wave Cities are Baguio, Dumaguete, Iloilo, Lipa, Metro Bulacan, Metro Cavite, Metro Laguna, Metro Naga, and Metro Rizal.⁶

Davao is also faring well in worldwide rankings. Recently, the emerging business district clinched the 66th spot in the 2015 top 100 outsourcing destinations in the world, according to Tholons.⁷ It also ranked 3rd among the top offshoring hubs in the Philippines, only trailing behind Manila and Cebu City, both of which had long been cited as outsourcing hubs.

These numbers prove one thing: Davao City is gradually accumulating economic strength that proves its capacity to host rich offshoring investments.

Get to know Davao

Davao City serves as Mindanao's center of trade, commerce, and industry. Work operations are driven by the working-age residents who make up 65% of the city's 1.4 million population, according to 2010 census.⁸ This makes Davao the fourth most populous city in the Philippines, while its land area of 2.44 square kilometers makes it the country's largest city.⁹

Davao is known for the diversity of plant and animal species that can be found in the region. It is also recognized as the eco adventure capital of the Philippines due to popular outdoor activities such as river rafting, wakeboarding, and trekking. This combination continuously strengthens tourism in the area.

However, tourism is not the only thing that entices foreigners to visit the region. Davao's promise of security as one of the safest cities in the country has also been catching the eye of foreign investors. It is undeniable that over the years, the city has been blossoming as one of the Philippines' economic powerhouses, a hot tourism destination, and a prime outsourcing hub that can house several foreign investments.

Why outsource to Davao

1. A Next Wave City

"Activities that encourage industry-based ICT research and strong support for startups will allow Davao to pull ahead of other Next Wave Cities."

— Lizabel "Wit" Holganza

Since 2010, Davao City has been ranking consistently among the country's Next Wave Cities, which are being selected every two years. As of the latest rankings, the city raced to the top of the list¹², implying positive outlooks for the site's future as a BPO spot. Before being considered a Next Wave City, locations are judged according to the following criteria:

- availability of talent;
- infrastructure;
- cost; and
- business environment and risk management.¹³

Next Wave Cities are seen as viable locations that can accommodate IT-BPO companies while providing an enabling business environment for both established and startup companies.

As a framework of support, the government via the National Computer Center has come up with a roadmap aiming to hone these cities into top shape. The report titled Philippine IT-BPO Road Map 2016: Driving to Global Leadership¹⁴ details the following initiatives to fortify the top IT cities.

INITIATIVES	ACTION PLANS
Retaining the momentum of Next Wave Cities	<ul style="list-style-type: none">• Conducting fact-based research• Supporting local talent development initiatives
Supporting Next Wave Cities' social ecosystem	<ul style="list-style-type: none">• Building BPO-ready social infrastructure• Developing local real estate and telecommunications
Creating linkages with the domestic industry	<ul style="list-style-type: none">• Creating a domestic outsourcing market• Promoting interactions between local industries and BPO companies
Enabling regional distinctiveness	<ul style="list-style-type: none">• Building business hubs with unique strength areas

As of today, Davao nurtures several BPO services, including:

- Voice-based processes;
- animation services;
- data processing;
- back office solutions;
- finance and accounting;
- application development for IT; and
- transcription services.

In the near future, the city is aiming to be the best in BPO services as it gains strength from its own economic and industrial progress and added government support.

2. *Ease of doing business*

Transparency and convenience are Davao's mottos when it comes to welcoming new investments. For businesses wishing to operate in Davao, there are convenient logistic solutions on how to start operating in the area. The city is ranked by the World Bank Group as the 2nd most ideal for doing business among 25 cities in the Philippines.

TOPIC RANKINGS	DAVAO'S RANK AMONG 25 CITIES
Starting a business	2
Dealing with construction permits	1
Registering property	20

As policies were made more convenient, investors in Davao go through quick and easy procedures to start their businesses, hastening the process and making it cost-effective. The city also centralizes business registration procedures by offering investors a one-time assessment and payment system for construction. On top of this, the city reduced the registration requirements and allowed online access to application forms for investors to download at their most convenient time.¹⁵

Compared with other cities, starting your business in Davao is more ideal as it provides an efficient and transparent system that benefits everyone involved in the process.



3. Booming economy

"Already a major employment generator, key government agencies ... have factored into their development plans the impact of the rapidly growing BPM [business process management] industry."

— Lizabel "Wit" Holganza

It is undeniable that Davao City was able to sustain its growth momentum for the past five years, making it the primary driver of Southern Philippines' economy.¹⁶ Just last 2014, it was cited as the fourth most competitive among all Philippines cities. It beat many Metro Manila cities in infrastructure, economic dynamism, and government efficiency. This budding outsourcing hub ranked first on annual infrastructure investments, transparency in local governance, investment promotion, and compliance to national directives.¹⁷

CATEGORY	RANKING
<i>Infrastructure</i>	1
Annual investments in infrastructure	1
Education infrastructure	2
DOT-accredited accommodations	3
Number of automated teller machines	3
Number of public transportations	3
Health infrastructure	10
<i>Economic dynamism</i>	11
Presence of financial institutions	5
Jobs generated	6
Local economy	7
Productivity	12
Cost of doing business	18
<i>Government efficiency</i>	13
Transparency score in local governance performance management system	1
Investment promotion	1
Compliance to national directives	1
Business registration efficiency	13
Ratio of tax to revenues	18
Governance competition-related awards	20

DOT = Department of Tourism



Investments are a main factor that pushed Davao City's economy into becoming one of the country's most dynamic, which is no easy feat considering that it is competing with highly industrialized cities in Metro Manila. However, investments in Davao are constantly increasing. In fact, business commitments for 2015 in Davao Region have hit PHP 17.4 billion as of February this year.¹⁸ In the city, total spending on business capitals has also surged to approximately 11.4% from 2009 to 2013. On average, business owners spend PHP 5.7 million for investments in the city.¹⁵ All these increased spending on investments and several new capitalizations fuel Davao's rapid and steady development.

It is estimated that the emerging economy's gross domestic product grows roughly at a rate of 6%–7.5% every year, which adds to the renewed interest of investors. As a response, the city does not disappoint by promising new enterprises a high business survival rate pegged at 85%, which sounds thoroughly encouraging for many local and foreign entrepreneurs.¹⁵ The necessary IT infrastructure, health services, and other logistics are also in place to invigorate new and long-existing enterprises.

4. *Reliable IT infrastructure*

"Davao's available spaces that are wired for outsourcing operations is a big plus. Currently, there are many commercial complexes ready to accept locators who can custom-fit these spaces quickly."

High-technology telecommunication services are continuously entering the region. This enables the city to meet the bandwidth requirements of BPO companies rapidly popping in the area.¹⁹ And because mobile and other forms of technology are very much widespread, several cellular sites and Internet service providers are readily available.

Also boosting employment rates and increasing job opportunities in Davao City are several IT parks that house many outsourcing companies. IT parks in the Philippines are reliable indicators of technological and economic progress. Investors can also benefit from the perks for IT parks accredited by the Philippine Economic Zone Authority, which legitimizes government tax benefits.²⁰ Of course, IT centers are also capable of sustaining technological advancements that cater to business processes.

Davao City also has a number of dedicated agencies that oversee information and communications technology (ICT) in the region. Overall, they aim to continually expand the region's industry support base in the field of ICT, as complemented by ample research and efficient marketing.



5. Low environmental risk

In disaster-prone areas, environmental vulnerability becomes a major concern for most outsourcing companies trying to avoid work disruptions and damage to their assets. This is why most entrepreneurs prefer safe zones that can buffer the negative impacts of natural disasters. Davao City meets this criterion, as it emerged as the least vulnerable to climate change in a study of 12 Philippine cities, according to the World Wide Fund (WWF) for Nature.²¹

Since the city sits at a practically typhoon-free zone, it is only exposed to relatively even rainfall throughout the year. Flooding, strong winds, and heavy rains are thus not a common problem.

As an added measure, however, the city government implements a risk reduction system in case of natural disasters such as floods, landslides, and earthquakes, which can compromise business continuity. They conduct earthquake drills, weather monitoring, trainings, and emergency responses through a focused action team.²²

With these measures in place, business owners are assured that their assets are protected from harsh environmental conditions and that strategies are in place to help manage the impacts of business-disrupting calamities. This translates to faster and more efficient work processes, and therefore higher revenues.

6. Skilled manpower

“Currently, Davao’s ICT champions are focused on intensifying industry-academe collaboration to prepare the next-generation talent pool for KPO [knowledge process outsourcing].”

Davao City, like most areas in the Philippines, is home to many English-proficient professionals who push the frontiers of voice services in the BPO industry. Graduates are encouraged to continually develop exemplary English communication skills, while IT and other related fields are being fortified to meet the demands of back office services. Aside from this, Davao also boasts of a high literacy rate reaching approximately 98%,²² which is one of the highest in the country.

The city, branded as the Center for Learning and Education in Southern Philippines, is also confident that it can meet BPO’s demands with backing from the education sector. With almost 400 elementary schools, 65 secondary educational institutions, and 46 colleges and universities, the city can produce qualified employees fit for BPO jobs. Curricula are also shifting focus to IT and other related areas as educational institutions aim to satisfy the qualifications for BPO jobs, which are now the most abundant in the region.²²

This year alone, Davao City is looking forward to some 13,500 fresh graduates,²³ and this number is expected to increase in the coming years. The Department of Labor and Employment is also actively championing increased employment in the city. Currently, it aims to leverage labor market information in order to come up with programs aiming to boost employment.²⁴ This promises much for BPO companies looking for skilled and knowledgeable employees to fill their job posts.



7. Efficient living conditions

The region is also seen as the main gateway to Southern Philippines due to the presence of two public airports and airstrips. Several ports are also accessible from the city,¹⁸ and there are various modes of transportation such as via buses, cabs, and other public vehicles. More transport projects are also underway to modernize the city's transport system.^{24,25}

Davao City also provides reliable health and education services. The city has the biggest government hospital in Southern Philippines equipped with modern medical facilities. In addition to this, private hospitals are accessible within any point in the city. There is also a growing number of language schools, review centers, and colleges that continually produce qualified graduates.

8. Other benefits of investing in Davao

Deciding to outsource some of your business services to Davao City can benefit your enterprise in more ways than previously mentioned. As a melting pot of cultures, the people's lifestyle in this city is flexible and amiable, which is compatible with Western and Asian cultures alike. Its natural charm as a tourist destination also delivers an interesting experience for anyone staying in the area. What's more, the availability of wide land spaces would enable you to choose prime locations for your offices, unlike in most highly populated cities.

IN CONCLUSION

"Keeping its ears on the ground' and engaging existing locators in continuing dialogs [and] exchanges with private and public sectors to anticipate potential barriers to their growth and expansion plans shall be a key to sustainable industry growth."

— Lizabel Holganza (CEO, ZipIT Solutions, Inc.; President 2012–2014, ICT Davao; Chair 2014–2014, National ICT Confederation of the Philippines)

Indeed, Davao City is steadily racing toward its rightful spot above many other offshoring destinations in the world. It remains grounded to its goal of empowering the city's talent pool in the IT and customer service sectors in order to propel the whole BPO industry forward. With the range of advantages it promises to investors—from low environmental risk, to a fully operational IT infrastructure, and to a most dynamic economy—this Next Wave City can be your go-to outsourcing solution. Right now, as it gathers momentum from the flock of investments coming in for success, Davao City gradually taps into its once hidden potential as the world's next premier offshoring destination.



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Headquartered in San Carlos, California, the company currently has more than 600 employees operating out of its facilities in the Philippines and Taiwan.

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- German
- Greek
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- Norwegian
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