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SEE Sourcing Industry Report


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About

AIBEST

AIBEST - Association for Innovation, Business Excellence, Services and Technology - is an independent industry organization which mission is the development of Bulgaria and the SEE region as a leader in knowledge-intensive products, services, solutions, and world-class destination for educated talent.
Aiming at driving knowledge, innovation, technology and professional ethics to improve the business environment, and shape the future of the knowledge-based economy, AIBEST is the voice of companies from the entire spectrum of the modern business services industry - companies specializing in BPO, ITO, KPO, LPO, HRO and others that employ over 35 000 people

For more information:

Association for innovations, business excellence, services and technology
AIBEST ANNUAL INDUSTRY REPORT 2020

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Introduction

The sourcing sector has been among the fastest developing ones for the last decade in most SEE countries. In 2020, SEE's sourcing sector was worth EUR 10.7 bln in terms of operating revenue. The aggregate operating revenue of the sourcing sector in the region rose steadily between 2016 and 2020, achieving an average annual growth rate of 13%.

This successful development is reflected by its constantly growing number of employees. As of 2020, just short of 250,000 people were working in the sector, or 23% more than five years ago.

When it comes to the topic of attracting new investors to each country in the region, all of us have similar problems with the brand and the limitation of the workforce. We all have an interest in that when you hear about the Balkans in 10 years time to think about innovations and technologies, not about the internal problems. We want Bulgaria to grow faster but we need the whole region to grow together. We want to work together for the reputation of all the countries in the SEE and to create and sustainably develop the common tech brand of the region.

When it comes to the brand, it should be connected to values. The knowledge economy is all about flexibility, adaptability, etc. The key is to define which are the priorities to become adaptable and successful in a constantly changing world – then for society and politicians to accept that.

To answer the above in 2019 AIBEST started collaborating with like-minded organizations around the Region sharing the common purpose to drive the development of knowledge economy in the SEE, to improve the business environment and collaboration and to position the Region as a market with high growth potential, offering value added services and solutions with a highly skilled and educated workforce. Our mission is to foster economic and social growth and raise the reputation of SEE region as the power house of Europe.

Uniting our strengths and capacities and emphasizing them as competitive advantages of the entire region is the only viable way to keep South East Europe among the top highly value-added business services destinations globally.

The common efforts of the stakeholders in the SEE are the key to the sustainable development of the knowledge economy and the prosperity of the countries in the region and we appreciate the contribution of all our partners.



Ilia Krustev,
Chairman of the
Managing Board at
AIBEST

Key findings

- The sourcing industry in Southeast Europe (SEE) generated aggregate operating revenue of EUR 10.7 bln in 2020, up by 4.9% year-on-year. ITO was larger in size than BPO, with annual turnover of EUR 5.7 bln, while BPO registered operating revenue of EUR 5.0 bln. ITO also grew at a faster rate of 6.8% on the year, while BPO expanded by 2.9% in 2020.

- ITO is the leading segment in SEE in terms of number of companies – 1,182 in 2020, while BPO consisted of 833 companies. HRO and VBPO dominated the BPO segment in 2020, together accounting for 58% of all entities in it. At the same time, shared service centres are the fastest growing sub-segment, accounting for one out of four vendors established after 2018.

- The industry headcount almost hit the 250,000-mark in 2020, with 48% of all employees being based in Romania. On an annual basis, the overall number of sourcing staff in SEE dropped by nearly 5,000 people, but was still 23% above the headcount at the beginning of the five-year period. A swift return to pre-pandemic growth levels is expected from 2021 onwards

- Sourcing companies contributed EUR 137 mln to the state budgets in the region through corporate taxes in 2020, compared with EUR 132 mln in the previous year.

- The SEE sourcing industry reported positive net financial result of EUR 838 mln in 2020, even though net profit margin contracted slightly to 7.8% from 8.0% in the year before.

- Sourcing companies are concentrated in Bulgaria and Romania and their capitals Sofia and Bucharest are the most important knowledge economy hubs in the region, together hosting more than 44% of all operations in SEE. Other emerging sourcing hotspots include Romania's Cluj-Napoca and Iasi, Bulgaria's Plovdiv and Varna, as well as Belgrade, Skopje and Zagreb.

- Investors from 62 countries are represented in the sourcing industry in the region. The Netherlands, Germany, the USA and the UK are home to the majority owners of 43% of all SEE companies with foreign ownership.

- Intra-regional investment activity has been constantly on the rise, with more than 80 companies based in a SEE country expanding beyond their national markets and reaching regional coverage. Slovenia is the most active investor abroad within the SEE region, closely followed by Serbia and Bulgaria.

1.Overview of SEE as a sourcing industry

SEE is a promising region with a lot of untapped potential in the knowledge economy industry. It is of strategic importance, especially in the context of the global developments since 2020. SEE is integrated into the European economy, with practically all 11 countries in the region belonging or maintaining tight relations with the European Union. Four of them are EU members while four other have the status of EU candidates. The remaining three SEE countries – Bosnia and Herzegovina, Kosovo and Moldova, have bilateral stabilisation and association agreements with the bloc. This deep integration contributes to the more stable political and business environment in the region in comparison with its competitors in Eastern Europe, North Africa and the Middle East.

The region also boasts a well-developed telecom infrastructure, with Internet connection speed in some countries being among the fastest worldwide. SEE has a talent pool of well-educated and highly skilled professionals in the areas of information technology and languages. However, its size is insufficient to meet the skyrocketing demand for qualified labour force. In order to keep and even accelerate the development of the sourcing industry, the talent pool with suitable skills needs to be expanded through a stronger emphasis on education and by attracting qualified talents from outside the region.

Last, but not least, tax rates in the region are extremely competitive compared with the rest of Europe. Thanks to the flat 10% corporate and personal taxes, Bulgaria has some of the lowest operational costs in the region.

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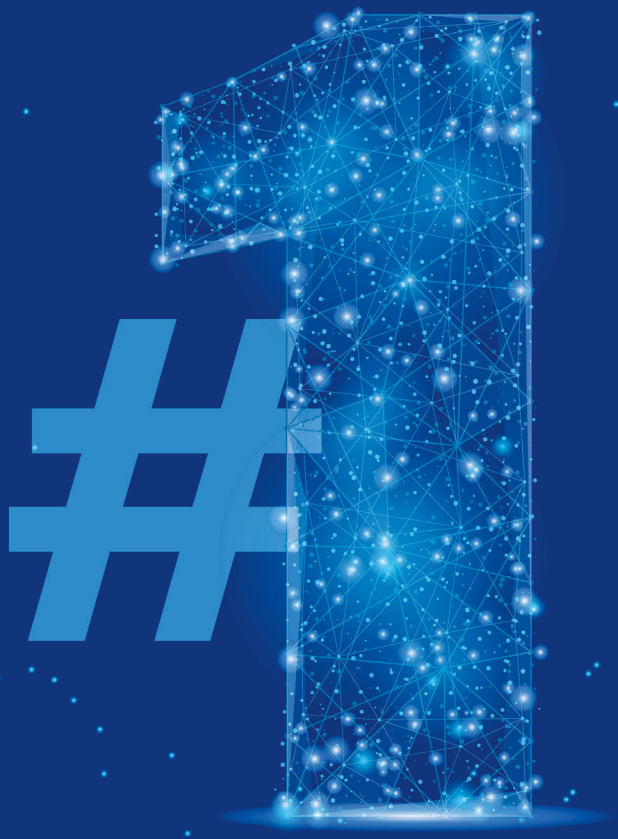

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2.Sourcing destinations

2.1 Major cities in SEE

As the largest knowledge economy markets in SEE, Romania and Bulgaria are home to the major sourcing cities in terms of employees and suitable talent pool. Their capitals, Bucharest and Sofia, are undisputedly acknowledged as the two most developed tech and business services locations in the region. The global strategic advisory company Tholons ranked four SEE cities amid the Top 100 Super Cities worldwide in its Global Innovation City Index 2021 – Bucharest, Sofia, Ljubljana and Cluj-Napoca. Romania's capital, with its 64th spot, remained the highest ranked, despite losing 11 positions from the previous year's edition. Sofia was 74th, down by 12 positions, while the other two representatives of the region – Ljubljana and Cluj-Napoca climbed on an annual basis and occupied the 79th and 84th positions, respectively. On a global scale, a common strength of all four sourcing destinations is their innovation and digital performance, encompassing an open innovation ecosystem, diversity on the start-up scene, policies and incentives supporting innovation, and digital competitiveness. On the other hand, the talent pool does not score high enough in terms of size and skills to match the performance of the leading European, North American and Asian locations.

In an effort to advance Bulgaria and the entire SEE region further on the global innovation scene, the Institute for Computer Science, Artificial Intelligence and Technology (INSAIT) was launched in Sofia earlier in 2022, as the first institution of its kind in Central and Eastern Europe. Besides Bucharest and Sofia, other locations are also on the rise on the SEE sourcing map. Serbia's capital Belgrade, with its 16 tertiary education institutions and more than 140,000 students enrolled in 2020/21 academic year, has the potential to become a close competitor to Bucharest and Sofia, which host 31 and 24 universities, respectively, and are home to a talent pool of over 270,000 students. In October 2021, US-based NCR Corporation announced the launched of its largest technology park in Europe, precisely in Belgrade, where 5,000 engineers, analysts and other highly qualified professionals will be employed. Croatia, through its capital Zagreb, is also on the road to becoming a mature sourcing location, with estimated 28,000 employed in the broader tech sector, more than 35,000 students enrolled in the city's universities and more than 2,000 IT jobs created in each of the last five years. Apart from the four big capital cities in SEE, several Romanian and to a lesser extent Bulgarian cities have also advanced in the development of their local tech and knowledge ecosystems. Cluj-Napoca, as just mentioned, has evolved into an IT and sourcing hub not only of national, but of European and even global importance. With 15,000 tech employees, 12 universities, more than 80,000 students, many of which in the STEM field, and bustling private and government investment in the sector, the city will soon challenge the dominance of Bucharest on the local knowledge economy scene. The same applies to Iasi, which, although with the smallest population among all other top locations in SEE, is home to an estimated 25,000 employees in the sourcing and wider technology sector. The third largest university centre in Romania aims to reach 40,000 tech employees by 2025. In Bulgaria, Plovdiv and Varna together have more than 10,000 workers in the industry, complemented by a talent pool of nearly 60,000 students in 14 universities.

2.2 Shared service centres

Shared services centres of global companies are at the forefront of the shift of the SEE sourcing industry from outsourcing towards a higher value-added and innovation services provider. The bulk of the SSCs included in the report were established in the last five years, when the trend of combining multiple activities, including financial, HR, sales, IT and even R&D operations support, in a single entity started to gather pace and led to a wider definition and vagueness of the borders between segments. The variety of industries in which SSCs are operating is also growing – from financial institutions, telecoms and tech companies to retail, logistics and manufacturing corporations.

SSCs in the region are still strongly concentrated in the two largest markets – almost 90% of them are in Romania and Bulgaria. Among the rest, Serbia stands out, while Croatia, North Macedonia, Moldova and Montenegro are still in the initial phase of development in this segment. Together, all SSCs in SEE generated operating revenue of EUR 1.6 bln in 2020 and accounted for 15% of the regional sourcing market. They employed more than 35,000 people, or 14% of the overall sourcing workforce.

Bulgaria has challenged Romania as the major SSC hotspot in SEE and is gradually closing the gap to its neighbour in terms of number of centres. Traditionally, the most of the parent companies of SEE shared service centres are based in the Netherlands – 18% of their total number, while Germany, the UK and the USA together account for one third of the foreign owners of SSCs in the region. German investors are the most active in establishing SSCs since 2019, especially in Bulgaria, followed by corporations based in the USA. Traditionally, the most parent companies of SEE shared service centres are based in the Netherlands – 18% of their total number, while Germany, the UK and the USA together account for one third of the foreign owners of SSCs in the region. The rest are established mainly by Belgian, Finnish, French, Irish and Swiss entities.

3.Country Profiles

Albania



€51.9 mln Market Size

23 Number of Companies

0.4% GDP Share

595 Number of Employees

Top Foreign Investor

USA Kosovo

Most Used Languages

English German Italian

Industry Association

Albanian Business Services Association

Bosnia and Herzegovina



€80.8 mln Market Size

49 Number of Companies

0.5% GDP Share

2,334 Number of Employees

Top Foreign Investor

Slovenia

Most Used Languages

English German

Industry Association

Association of Business Service Leaders in Bosnia and Herzegovina

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Technology

Retail & Consumer Product Goods

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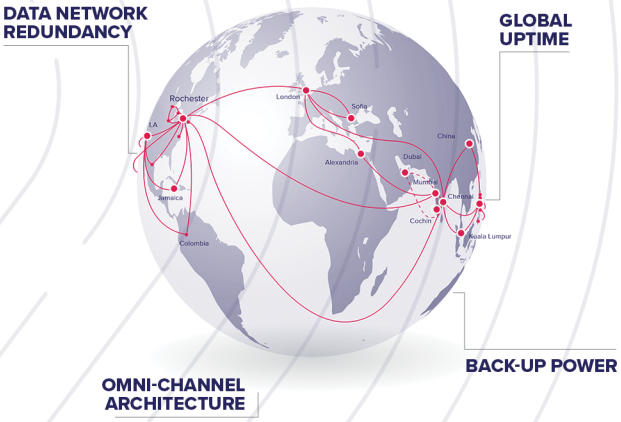

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Bulgaria



€3.438 bln
Market Size

731 Number of Companies

5.6% GDP Share

78,853 Number of Employees

Top Foreign Investor

UK

Most Used Languages

English German French

Industry Association

Association for Innovation, Business Excellence, Services and Technology

Croatia



€499.6 mln
Market Size

134 Number of Companies

1.0% GDP Share

10,209 Number of Employees

Top Foreign Investor

Slovenia

Most Used Languages

English German Italian

Industry Association

Croatian Information Technology Association

Kosovo

N/A Market Size

41 Number of Companies

N/A GDP Share

N/A Number of Employees



Top Foreign Investor

Germany, North Macedonia

Most Used Languages

English

Industry Association

Kosovo Association of Information and Communication Technology

Moldova

€120.4 mln Market Size

59 Number of Companies

1.2% GDP Share

3,423 Number of Employees



Top Foreign Investor

Italy

Most Used Languages

English, German, Italian

Industry Association

Association of Business Service Leaders in Moldova

Montenegro



€19.4 mln
Market Size

13 Number of Companies

0.5% GDP Share

611 Number of Employees

Top Foreign Investor
N/A

Most Used Languages
English, Russian

Industry Association
N/A

North Macedonia



€179.9 mln
Market Size

158 Number of Companies

1.7% GDP Share

7,504 Number of Employees

Top Foreign Investor
USA

Most Used Languages
English, German, French

Industry Association
Chamber of Commerce for Information and Communication Technologies

Romania



€5.176 bln Market Size

543 Number of Companies

2.4% GDP Share

120,009 Number of Employees

Top Foreign Investor

Netherlands

Most Used Languages

English, French, German

Industry Association

Association of Business Service Leaders in Romania

Serbia



€688.9 mln Market Size

191 Number of Companies

1.5% GDP Share

18,734 Number of Employees

Top Foreign Investor

Netherlands, Switzerland

Most Used Languages

English, German, French

Industry Association

Information Technology Association of Serbia

Slovenia

€486.8 mln
Market Size

73 Number of Companies

1.0% GDP Share

7,187 Number of Employees



Top Foreign Investor

Austria

Most Used Languages

English German Croatian

Industry Association

ICT Association of Slovenia

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4. Vendors Landscape

4.1 Geographical locations

The sourcing industry in the SEE region is concentrated in two countries – Romania and Bulgaria, as well in as the capital cities of the rest, which are home to more than 75% of the companies in the sector in the respective national market. At the same time, more than 44% of all SEE sourcing vendors are headquartered in the two major regional sourcing hubs – Sofia and Bucharest.

Due to their advanced stage of market development, Romania and Bulgaria have seen the sector spreading outside the capitals – Cluj-Napoca has established itself as the largest non-capital sourcing centre in SEE, while Plovdiv, Varna, Iasi and Timisoara are also following the trend.

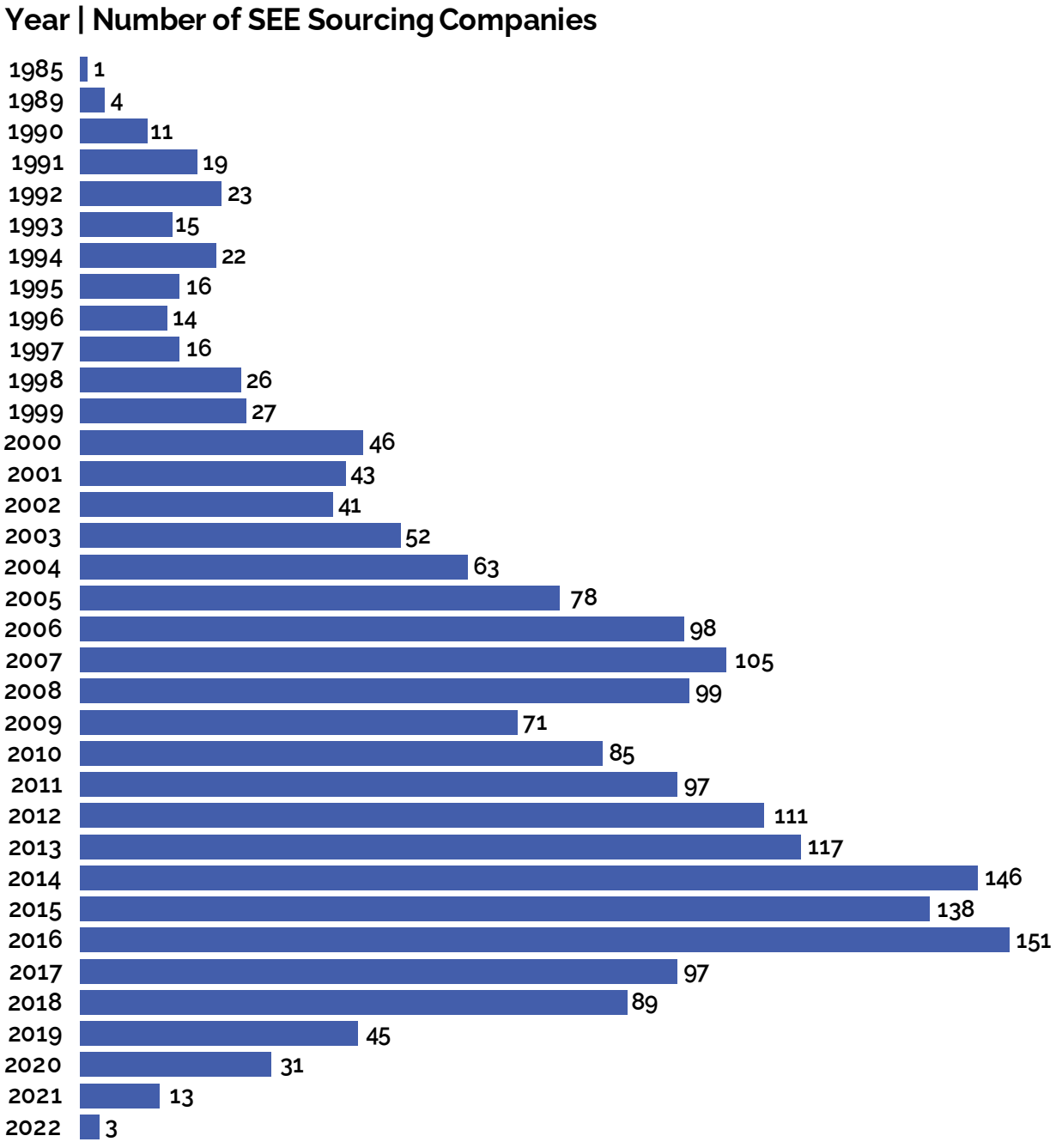
Fig. 1 Major SEE Cities by Number of Sourcing Companies



4.2 Distribution of companies by incorporation date

The sourcing sector has been among the fastest developing sectors for the last decade in most SEE countries. The bulk of the companies in the region were established after 2010. Nearly a third of all active sourcing providers were set up in the most dynamic period 2012-2016 alone. Albeit at a decelerating rate, the trend continued afterwards with 92 newly created sourcing companies since 2019. More than two thirds of them are either Bulgarian or Romanian, which highlights the ongoing polarisation of the sector in favour of the two largest regional markets.

Fig. 2 Number of SEE Sourcing Companies by Year of Establishment

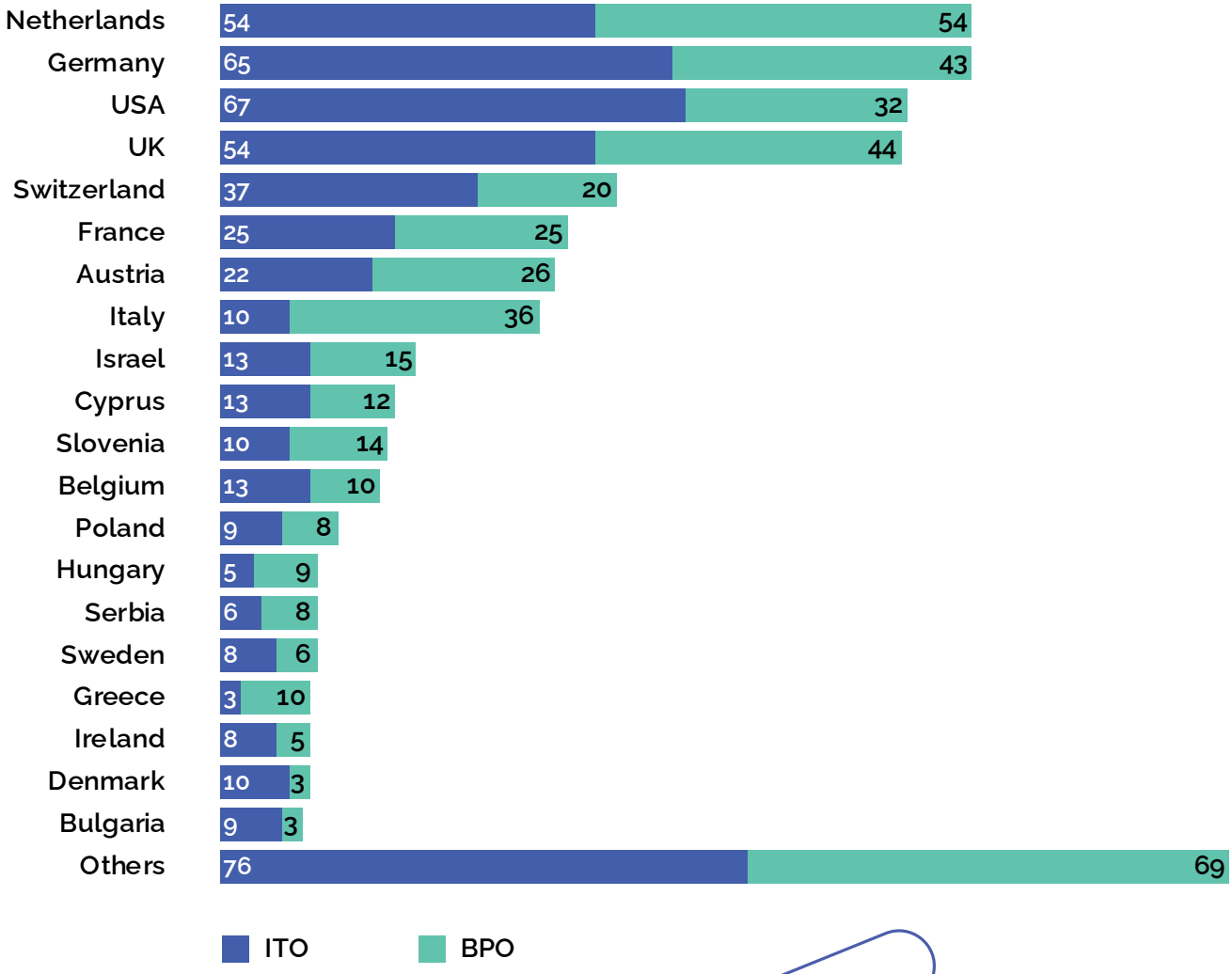


4.3 Distribution of companies by ownership

Slightly less than half, or 48%, of the sourcing vendors in SEE are owned by individuals or legal entities based outside their respective country. ITO is more widely represented among the foreign-owned vendors with 517 companies, while BPOs of foreign ownership number 452 entities.

Investors from 62 countries own majority stakes in SEE sourcing companies. Shareholders coming from the top four markets - the Netherlands, Germany, the UK and the USA, account for approximately 43% of all foreign ownerships in SEE sourcing companies and almost 60% of the companies they have invested in operate in the ITO segment. Slovenia, Serbia and Bulgaria are the SEE countries most active in investing within the region – 24 of the sourcing vendors in SEE have a Slovenian majority owner, 14 - Serbian and further 12 - Bulgarian. While Slovenian and Serbian owners are concentrated on BPO, Bulgarian companies are strongly in favour of ITO, when it comes to establishing subsidiaries in the region.

Fig. 3 SEE Sourcing Companies with Foreign Owners



4.4 Languages used in sourcing

The rapidly increasing internationalisation and global integration of the sourcing industry have made foreign languages an indispensable element of the companies' operations. As many as 70% of the companies covered in this report require that employees have knowledge of at least one foreign language. Overall, SEE sourcing vendors cover 38 foreign languages from around the world. German follows with a share of 10.9%, while the other three languages with significant coverage – French, Italian and Spanish, have shares of between 4% and 8% The remaining foreign languages in the sector are used in less than 50 companies in the region.

Fig. 4 **Most Popular Foreign Languages in SEE Sourcing Companies**



English
1358



German
219



French
149



Italian
96



Spanish
85



Dutch
50



Russian
40



Turkish
31



Polish
27



Portuguese
24

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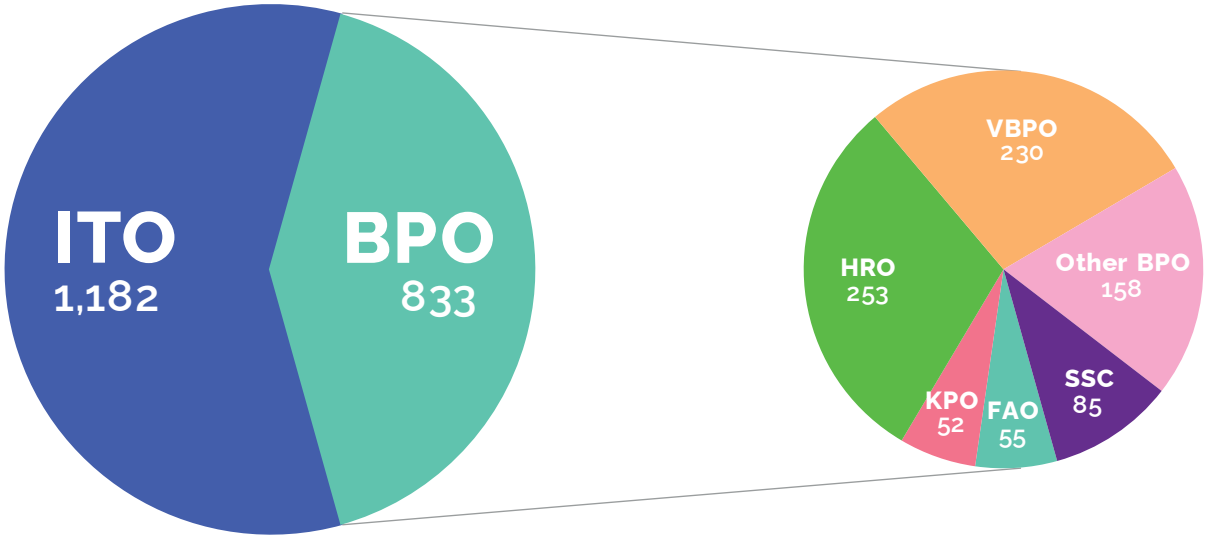
5.Financial analysis

5.1 Number of companies

ITO is the leading segment of the SEE sourcing sector in terms of number of companies as of 2020 – the year with the latest available financial results for all countries covered in this report. They amount to 1,182, while BPO is represented by 833 entities. HRO and VBPO providers dominate the BPO segment, accounting for 58% of its total number of companies. Shared service centres continue their expansion – one in seven of the analysed SSCs was established in 2019 or later. The structure of the industry varies significantly between countries – in most of them ITOs are more numerous, reaching shares of 65% or above in Kosovo, Albania and North Macedonia, while Slovenia is at the other end of the spectrum with almost 60% of its sourcing vendors classified as BPOs.

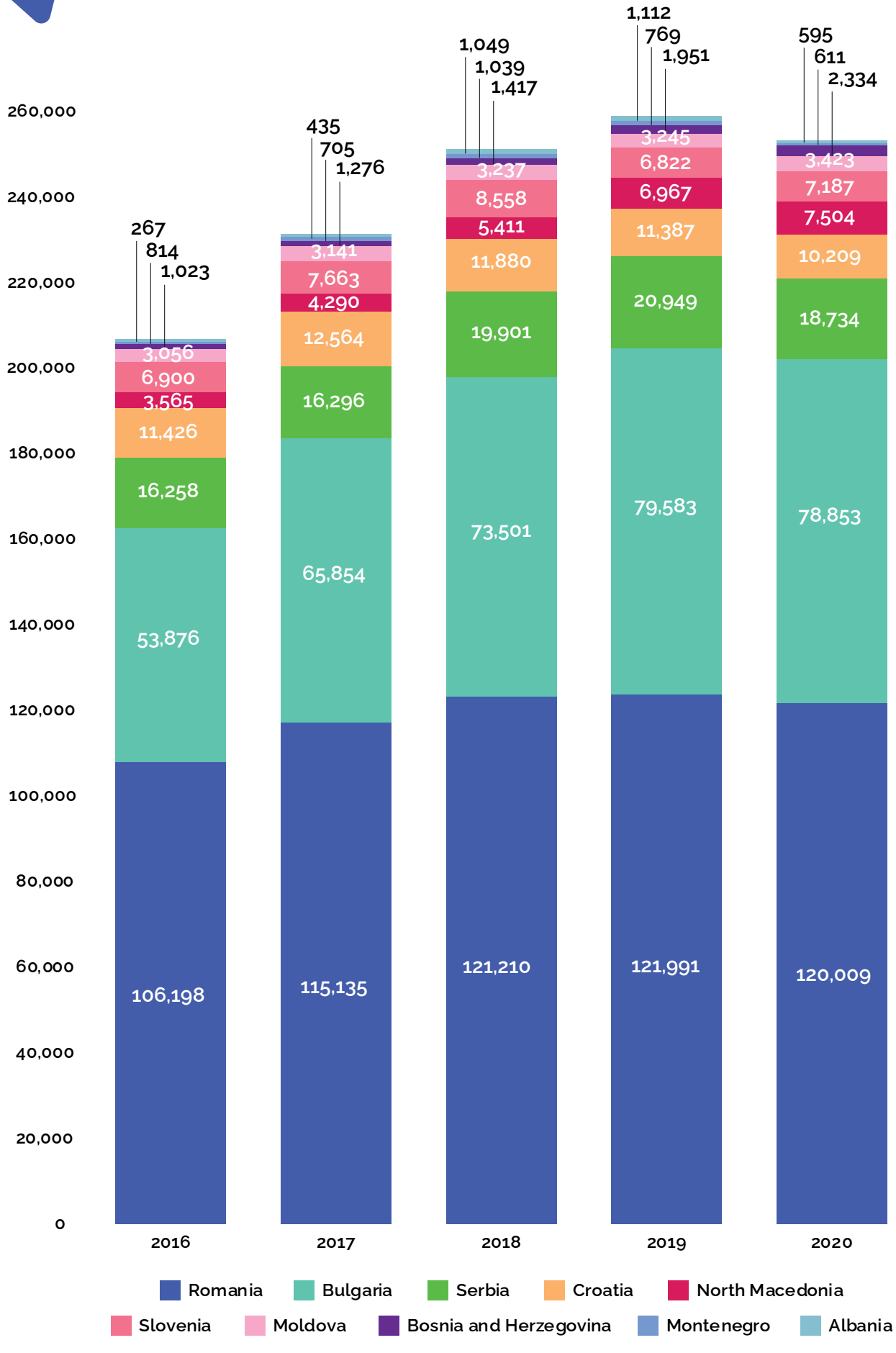
Fig. 5 Number of SEE Sourcing Companies by Segment



5.2 Employment

The successful development of the sourcing sector in SEE is reflected by its constantly growing number of employees, with the exception of the slowdown in 2020 caused by the COVID-19 pandemic. Although total sourcing staff in the region contracted by more than 5,300 that year, employment in the sector in some countries like Slovenia, North Macedonia, Bosnia and Herzegovina and Moldova continued to grow. As of 2020, just short of 250,000 people were working in the sector, or 23% more than five years ago. Romania with 120,000 employees and Bulgaria with almost 79,000 accounted for 75% of the overall sourcing employment in SEE.

Fig. 6 **Number of Employees in SEE Sourcing Industry by Country**



*Kosovo not included due to lack of data
*2020 employee numbers for the largest sourcing company in Albania are unavailable

RESULTS

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5.3 Market size

In 2020, SEE's sourcing sector was worth EUR 10.7 bln in terms of operating revenue. The aggregate operating revenue of the sourcing sector in the region rose steadily between 2016 and 2020, achieving an average annual growth rate of 13%. As for the crisis-hit 2020, sourcing operating revenue advanced by 4.9% - or three times lower than in the previous years of the period under review. By segment, ITO grew by 6.8% on the year, while BPO increased its size at more than two times slower rate of 2.9%.

Despite its smaller headcount than BPO, of 92,000 people, ITO remained the larger segment in revenue terms with EUR 5.7 bln in 2020.

Fig. 7 Operating Revenue and Employment in Sourcing Segments in SEE

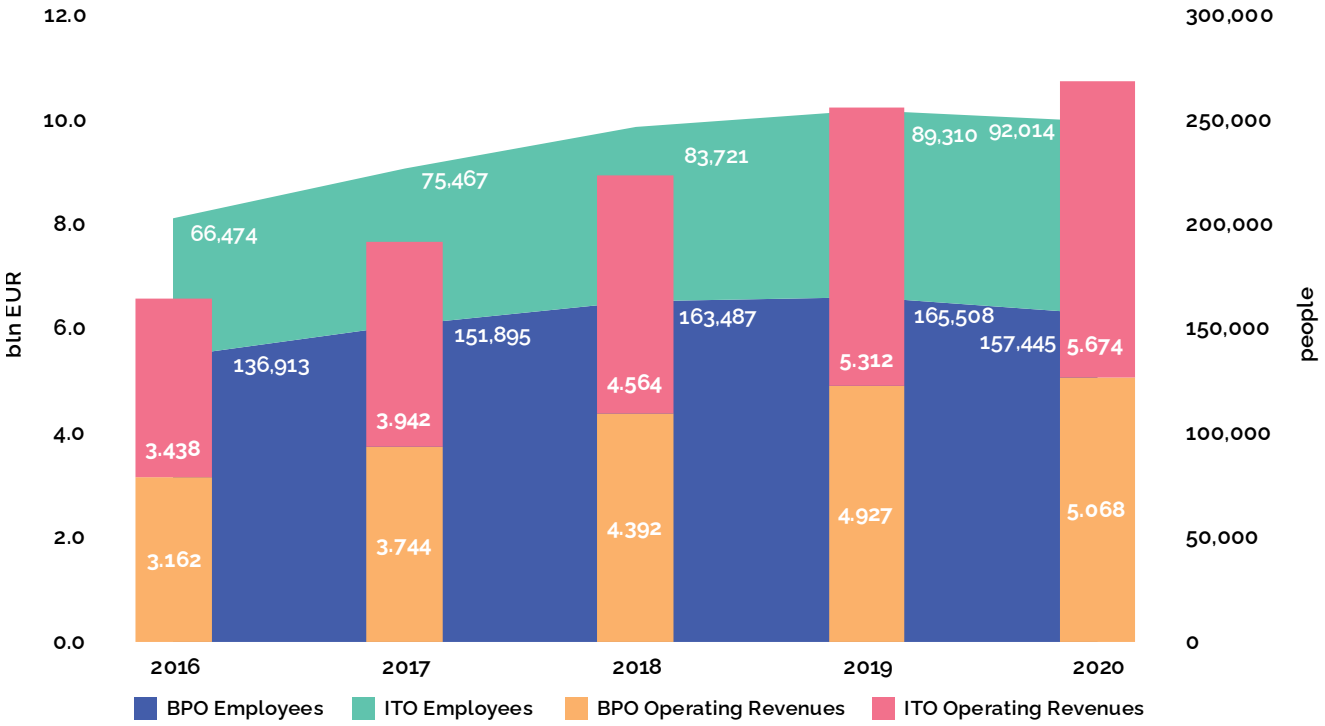
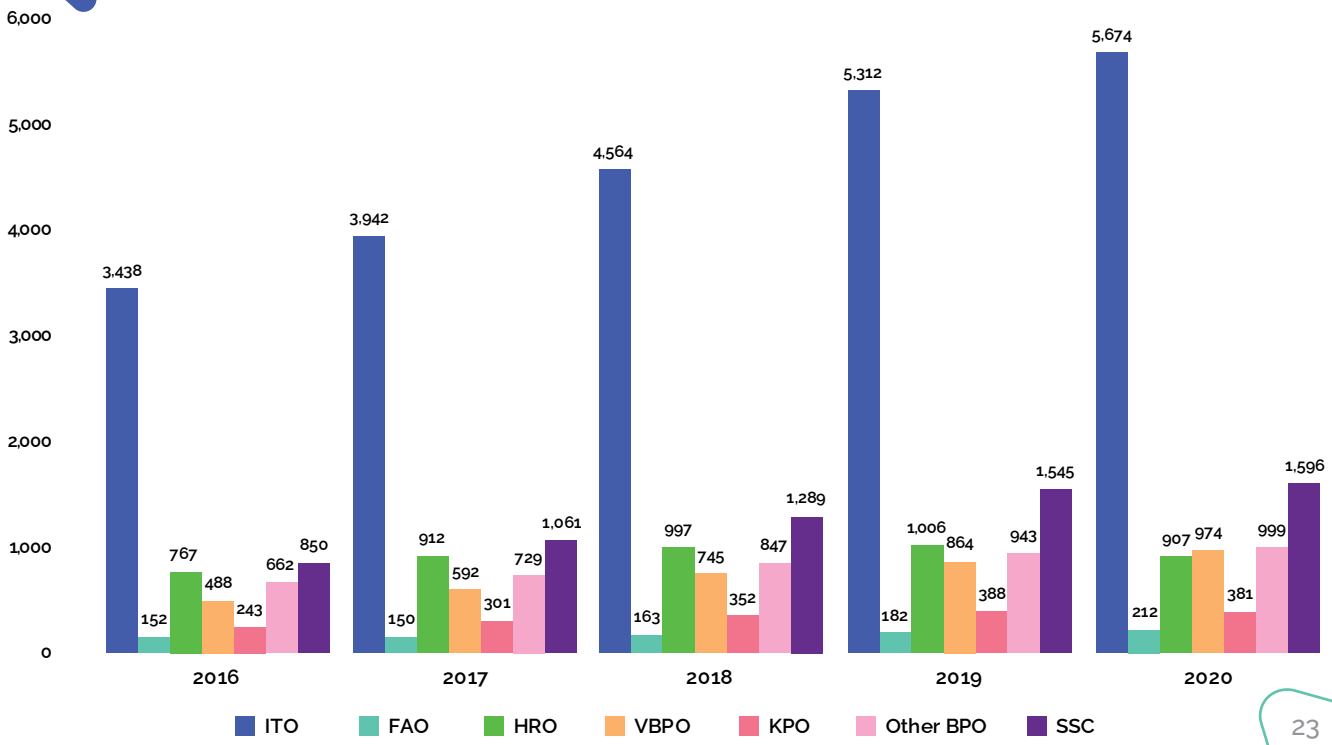
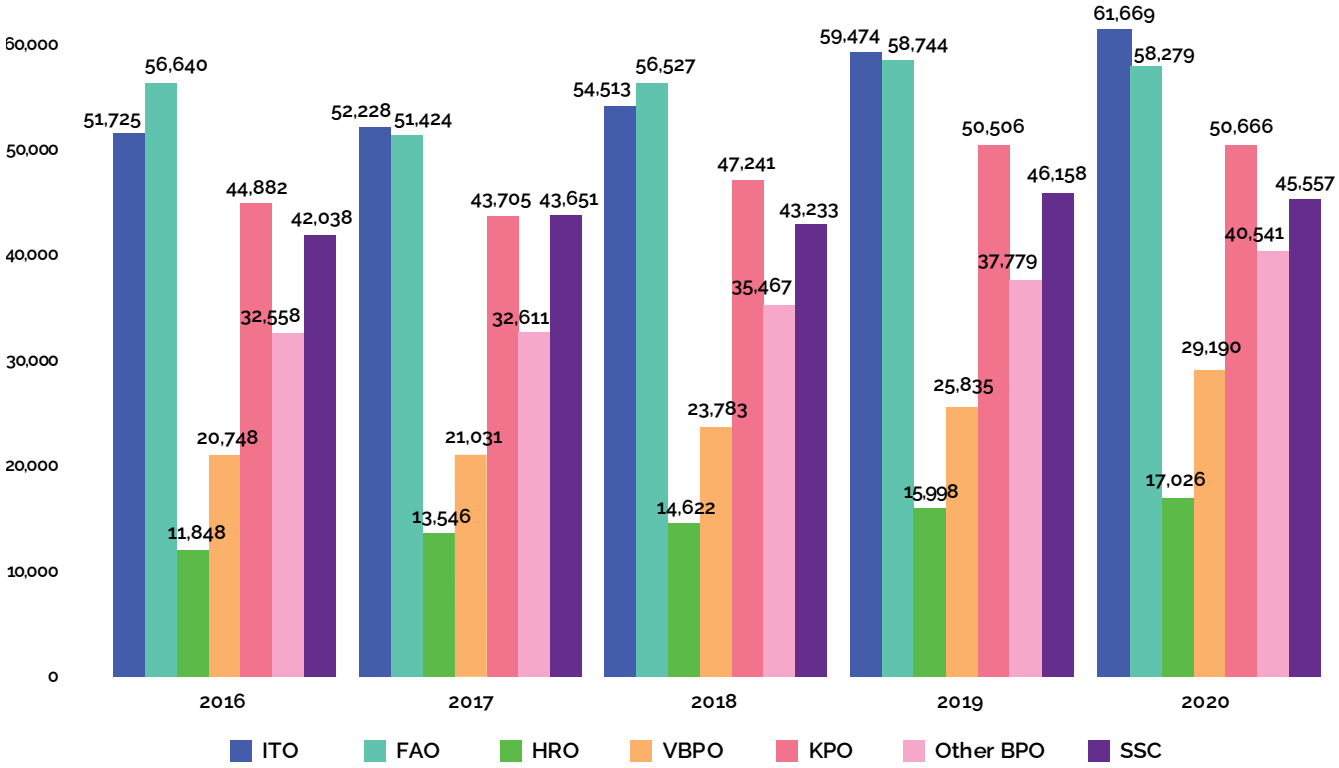


Fig. 8 Operating Revenue by SEE Sourcing Segment (EUR mln)



Within the BPO segment, which boasted a total operating revenue of EUR 5.1 bln in 2020, SSC was the leading subsegment with operating revenue just short of EUR 1.6 bln. Together with VBPO, this is also the fastest growing branch of the sector in SEE, as both have nearly doubled their size between 2016 and 2020.

Fig. 9 Operating Revenue per Employee by SEE Sourcing Segment (EUR)



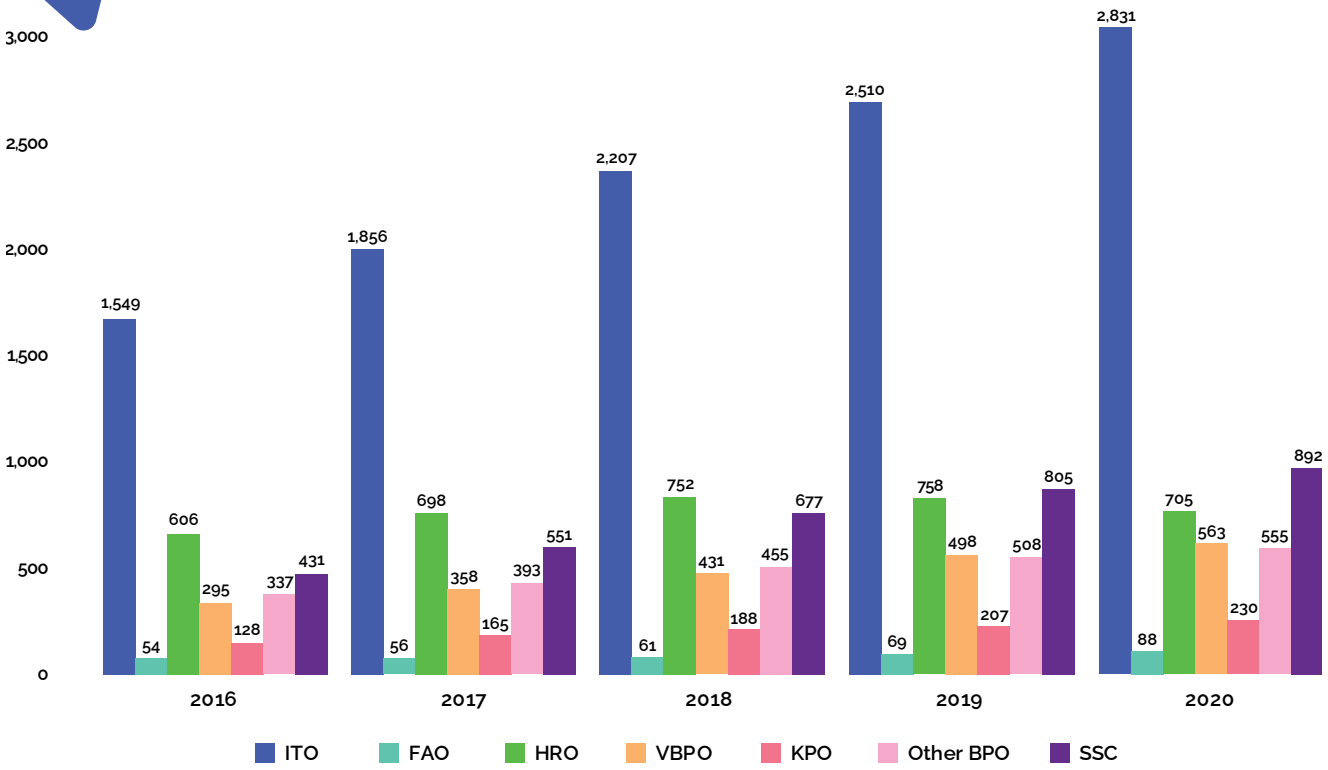
In 2020, an employee in the SEE sourcing industry on average generated more than EUR 43,000 of operating revenue, up by a third since the beginning of the period 2016-2020. The average contribution varied in a wide range among the segments and sub-segments of the industry in the region. The highest value so far was registered by ITO in 2020 when the average annual contribution of an employee to the aggregate operating revenue was in excess of EUR 61,600.

In 2020, the revenue per BPO employee was 39% higher than in 2016, while in the ITO segment the growth rate compared with 2016 was only 19%. A similar trend was observed among the BPO subsegments as well. The leader in terms of revenue per employee – FAO, has grown by a humble 3% in the five-year period under review, while HRO's average revenue per employee has soared by 44% to EUR 17,026. However, this is still well below the level of all other sub-segments.

5.4 Labour costs

Rising labour costs and increased productivity in the SEE countries in the five years up to 2020 led to a jump in aggregate employment expenses in the industry at an average annual rate of 15% in the period under review. However, there has been a gradual slowdown and in 2020 labour expenses increased by 10%, or twice lower than three years ago. Personnel expenses in the ITO segment expanded faster than the industry average in 2020 – by 13%, as did those in all BPO sub-segments except for HRO and Other BPO. The smallest BPO sub-segment – FAO, was the leader in terms of annual labour costs increase in 2020 with 27%, outpacing VBPO, which ranked second with personnel expenses increase of 13% on the year.

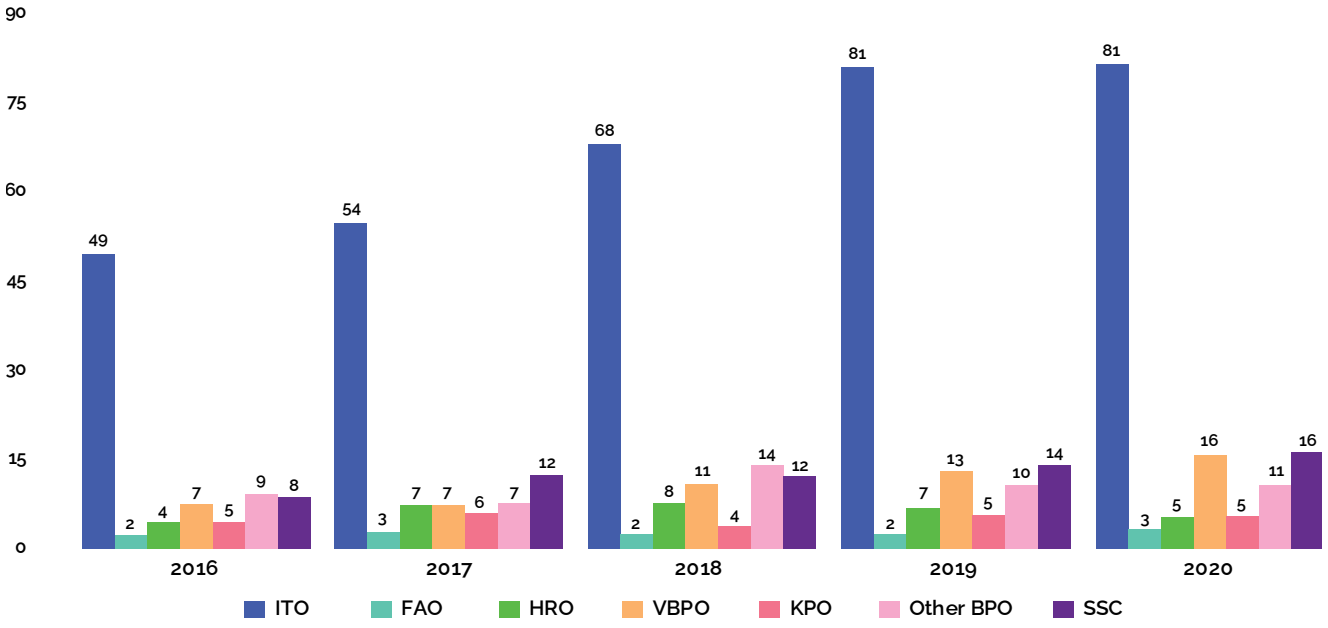
Fig. 10 Labour Costs by SEE Sourcing Segment (EUR mln)



5.5 Taxes

The role of the sourcing sector as a taxpayer becomes increasingly important in most SEE countries. In 2020, the combined total taxes paid by all sourcing vendors in the region amounted to EUR 137 mln, up from EUR 132 mln in the previous year and EUR 85 mln in 2016. In accordance with its larger size, ITO accounted for the bulk of the taxes paid by the industry in 2020 – EUR 81 mln versus EUR 56 mln for BPO. However, the latter grew at a faster rate of 8% in 2020. Within the BPO segment, FAO boasted the strongest annual growth in taxes paid, of 36%, followed by the two largest taxpayers in absolute terms – VBPO and SSC, which increased their contribution to the state budgets of the SEE countries with 21% and 16% on annual basis, respectively.

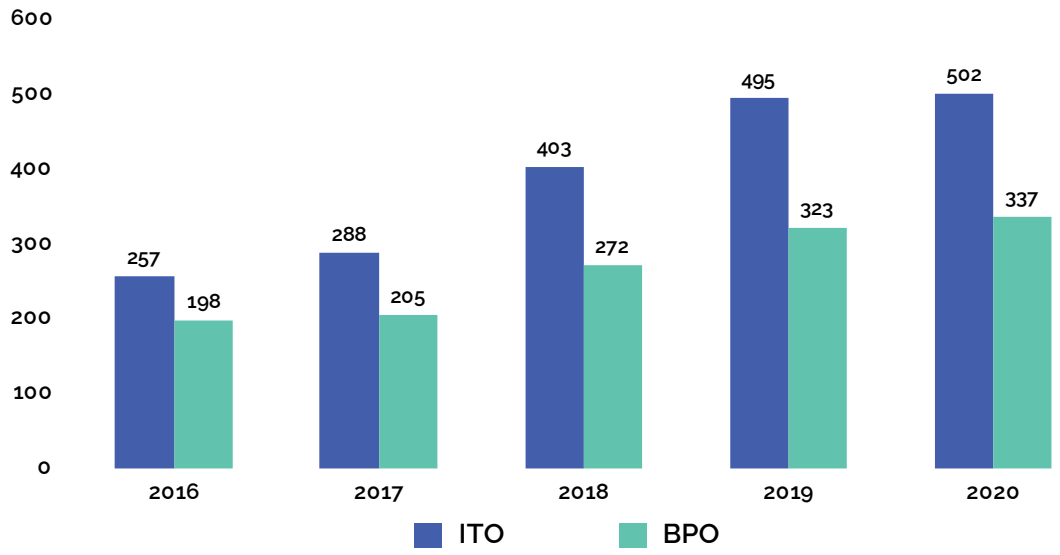
Fig. 11 Total Tax Costs by SEE Sourcing Segment (EUR mln)



5.6 Profitability

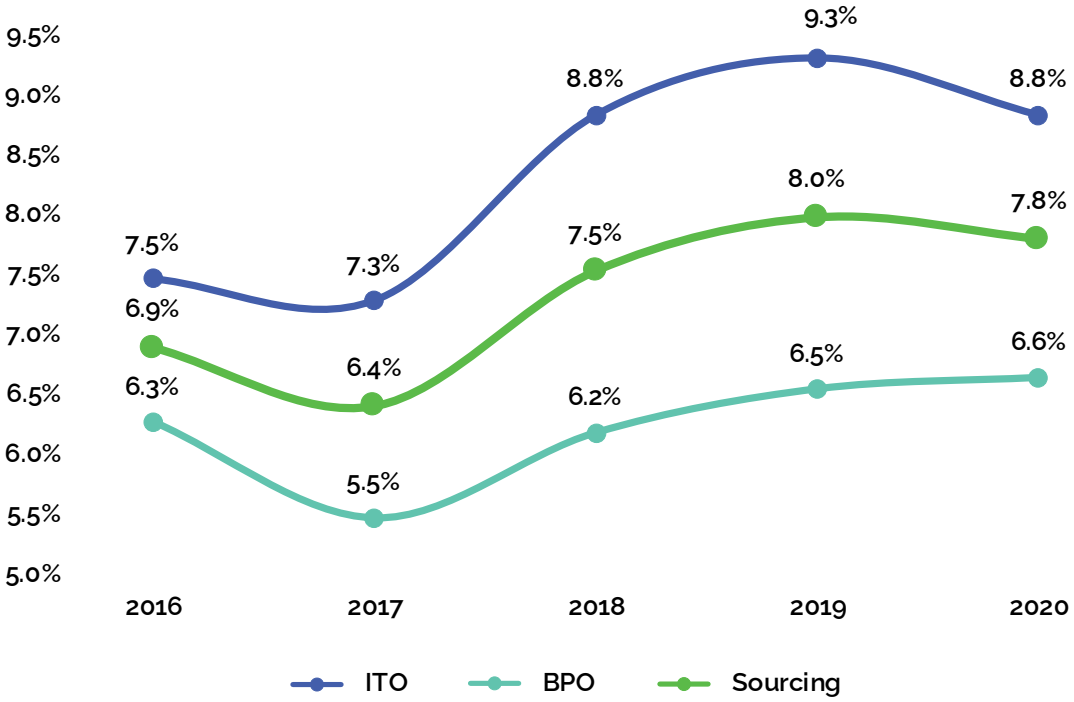
In 2020, the SEE sourcing sector reported aggregate net profit of EUR 838 mln. For the whole period 2016-2020 the sector's net profit totalled EUR 3.3 bln. Both ITO and BPO registered positive financial results in the year plagued by the global health and economic crisis. ITO vendors had a combined net profit of EUR 502 mln, up by 1.4% on the year, while BPO profits increased at a three times higher rate of 4.3% to EUR 337 mln. At BPO sub-segment level, VBPO and SSC were responsible for more than half of the aggregate net profit of the segment. While SSC, together with HRO, were the only two sub-segments to post an annual decline in net financial result, VBPO became the first sub-segment to exceed the EUR-100-mln mark in the five years under consideration, thanks to a sound 30% growth rate in 2020.

Fig. 12 Net Profit/Loss by SEE Sourcing Segment (EUR mln)



Despite the successful performance of sourcing companies in SEE in terms of profitability, net profit margin deteriorated due to the slower annual growth of profits in comparison to the aggregate operating revenue. Thus, the net profit margin of the industry in 2020 stood at 7.8%, a notch down from the 8.0% recorded in 2019. ITO maintained its higher profitability ratio against BPO - 8.8% versus 6.6%. However, ITO's margin stood at 9.3% in the previous year, while BPO's net profit margin grew from the 6.5% recorded in 2019.

Fig. 13 Net Profit Margin by Overall Sourcing Segment



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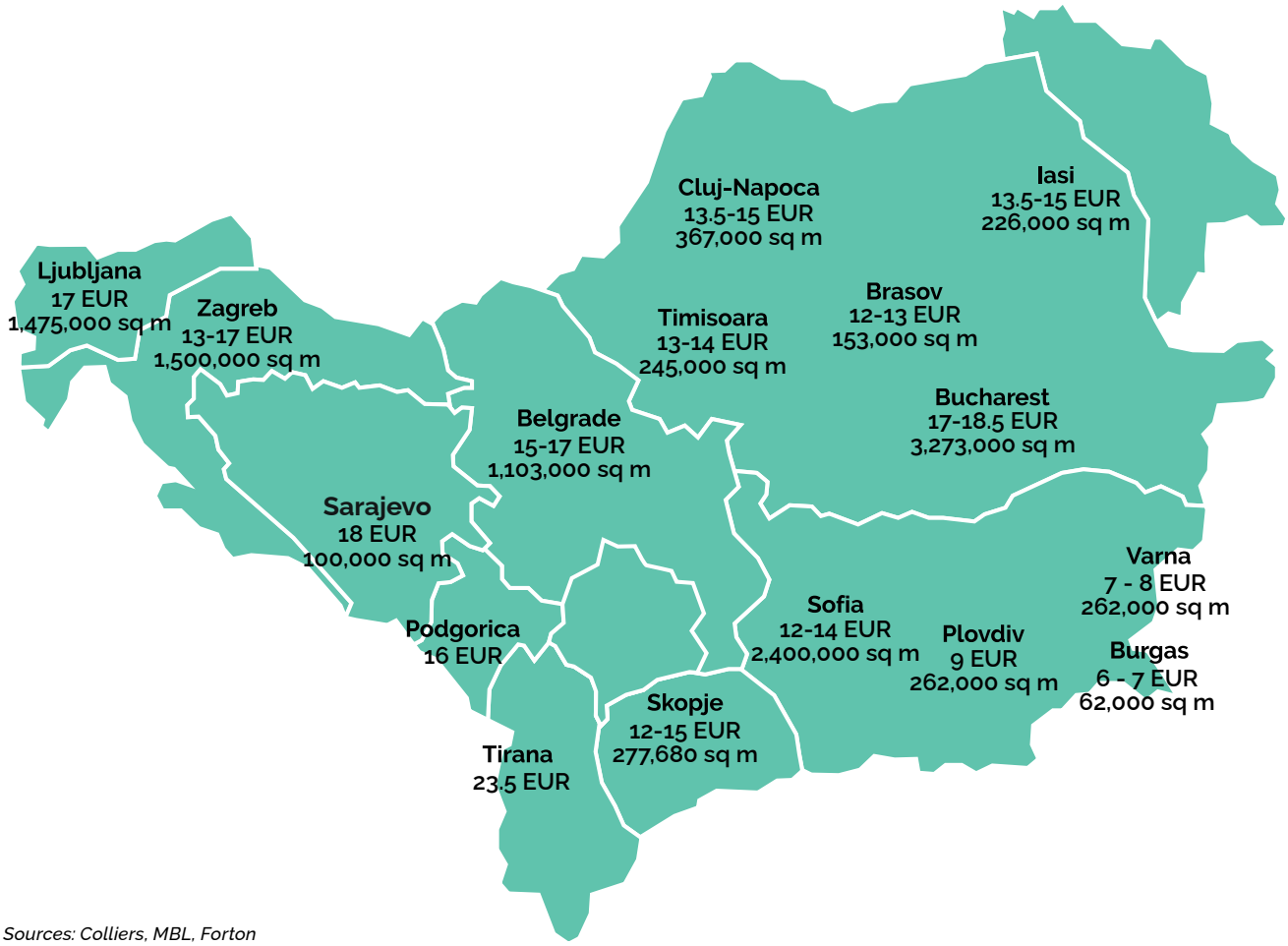
6. Office space

Even in unprecedented times of hybrid and remote work during the COVID-19 pandemic, the office market in the major SEE cities is bouncing back to its previous course of development, although at a slower pace than prior to 2020.

The two centres of the SEE sourcing industry, Bucharest and Sofia, maintained its role as the most developed office space market in the region with a combined supply of Class A and Class B office space exceeding 5.6 million sq m as of March 2022. This equals nearly half of the total office stock in the region, estimated at 11.7 million sq m. Zagreb, Ljubljana and Belgrade are the other locations with more than 1 million sq m of office stock, while the rest, led by Romania's Cluj-Napoca, are still far behind in terms of supply with 370,000 sq m or less.

Class A rents vary widely throughout the region, from EUR 23.5/sq m in Tirana and EUR 18 in Sarajevo, where high-quality supply is still very scarce, to less than EUR 9 in the Bulgarian cities of Plovdiv, Varna and Burgas. The average price range is between EUR 12 and EUR 17 per sq m and all major locations fit into it, with Bucharest, Belgrade and Ljubljana close to the upper end and Sofia, Skopje, and the smaller Romanian cities slightly less expensive.

Fig. 14 **Average monthly asking rent for Class A office space (EUR/sq m) and available office space**



Sources: Colliers, MBL, Forton

In most locations in the region, the emphasis is on Class A buildings. They account on average for more than 60% of the total office stock, with minor exceptions, such as Ljubljana, Zagreb, Skopje and Sarajevo. The proportion of Class A office space in the mix is the highest in Romania, especially in Bucharest and Cluj-Napoca, where they are estimated to exceed 70%.

The steady headcount growth across the IT sector and the ITO and BPO sub-segments in SEE has resulted in a stable demand for office space in SEE by new occupants. Demand from shared service centres is also growing, although fewer companies from this segment are entering the regional market after 2020. Outside of the tech sector, the largest new occupants of office space

include financial and professional services companies, mostly in Bulgarian and Romanian cities, and manufacturing and logistics companies in the capitals of Serbia, Croatia and North Macedonia, as well as several locations in Romania, such as Cluj Napoca and Brasov.

The tight labour market in most SEE countries is the main reason for many BPO companies to prefer competitive markets in Central Europe. Most of them see limited potential to start a new business in terms of labor force, but already established local companies continue to expand their operations.

The office pipeline across SEE is still limited as of March 2022. The increasing vacancy rate, which exceeded 15% in one of the region's prime markets – Sofia, for the first time in more than five years, and the growing construction costs combined with a shortage of construction materials are making developers cautious about starting new office buildings. This is expected to result in supply shortage in the mid-term. The total office area in projects under construction in Sofia amounted to 220,000 – 290,000 sq m at the end of Q1 2022, according to different estimates, which makes it the hottest spot for new projects in SEE, along with Belgrade. The largest development is Business Garden Office X with 53,000 sq m in a prime location. Phase 1 is scheduled for completion in May 2022, while Phase 2 is planned to break ground in the second half of 2022. Among the other cities with the largest concentration of office space in the region, Bucharest boasts more than 180,000 sq m under construction in Q1 2022. The rest of the cities have considerably smaller pipelines, of 50,000 sq m, as in Zagreb, or less.

The pandemic has shifted the business requirements of office space occupiers, seemingly permanently. This is why the office market is expected to grow at a rate that does not completely match the increase of business activity. According to surveys by real estate agencies, most of the companies are growing their business, but do not plan to increase their office space in the coming quarters. At present, net absorption is modest, since the market is driven by relocations and renewals, rather than expansions and newcomers.

Flexibility, home office and hybrid ways of working are here to stay, and therefore owners need to provide the Office-Space-as-a-Service at a more sophisticated level. The office is becoming less of a production space and more of a place to create and manifest the corporate culture. This provides an opportunity for office space owners to implement more automation in the building management processes, as well as to introduce a variety of services oriented towards the wellbeing of their tenants' employees. Employees are now much more focused on health and safety protocols as they can choose to work literally from anywhere, so owners and tenants need to create procedures and practices to ensure they prefer coming to the office. The pandemic is also expected to have a long-term stimulating influence on flexible business models, such as co-working spaces.

7. Industry trends

The global shifts caused by the pandemic can be translated into an opportunity for the SEE region to speed up its economic growth and position itself as a preferred location for doing business. All 11 countries should prioritise attracting international investors who are considering bringing their operations closer to their European headquarters back from Asia and other parts of the world in search of risk diversification. The SEE region could also attract highly skilled talent from Ukraine amid the ongoing war. This holds true especially for the tech and knowledge economy, given the fact that prior to the war, according to government data, Ukraine enjoyed an ecosystem of 240,000 talents and more than 2,000 tech product companies and IT service providers.

Education is a major challenge across the region. With the labour force tightening at the same time when operations in the industry are becoming more skill-demanding, coordinated efforts in this field are of utmost importance. Introduction of modern secondary and tertiary education with strong emphasis on STEM (Science, Technology, Engineering, Math) competences will be key to expanding the talent pool with the right skillset for participation in the knowledge economy. Beside formal education, numerous private tech schools and academies within the companies also contribute to these efforts. The accelerating penetration of artificial intelligence (AI), robotic process automation (RPA) and intelligent process automation (IPA) in the industry will have an impact on the sector's productivity. Employees performing standardised functions will have to be reskilled or upskilled to perform more advanced and complex tasks. At the same time the race for heavy investment in automation and AI among the companies in the knowledge economy will boost the demand for highly qualified professionals in these areas.

A trend that will define the development of the sourcing industry in SEE in the next years is the transition to more sophisticated business services with higher value-added, investments of global companies in not only shared service centres, but also in centres of excellence, concentrated on innovation. Bulgaria and Romania are the first in the region to establish themselves as destinations where world-class tech businesses can be created and R&D is successfully performed. They should take the leadership role among the other countries in the region and establish the sourcing industry in SEE as a common market that facilitates the exchange of know-how between companies and educational institutions at international level.

8. Methodology

The purpose of the SEE Sourcing Industry Report 2022 is to summarize the sector's developments in Southeast Europe, consisting of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, North Macedonia, Moldova, Montenegro, Romania, Serbia and Slovenia, in the period 2016-2020, including to outline the effects of the COVID-19 pandemic, and to provide reliable and provide reliable, comparable, comprehensive and independent data about the market stakeholders.

The main focus of the report is the analysis of the ITO and BPO segments of the sourcing industry, including voice-based BPO (VBPO), finance and accounting sourcing (FAO), human resource sourcing (HRO), knowledge process sourcing (KPO), shared service centres (SSC) and other vendors specialised in providing more than one type of services. SSCs are included in this report only in cases when they are separate legal entities, or their financial indicators are published separately within the financial reports in case of global companies active in other sectors that operate own SSCs as part of their trading and manufacturing subsidiaries in SEE and not as separate legal entities.

The report was prepared in May 2022.

The SEE Sourcing Industry Report 2022 encompasses 2,015 companies from all 11 countries and all sourcing segments. The identification process consists of the following steps:

- The initial pool of companies is derived by individual desktop check of all companies in our database with industry classification in one of the following fields (NACE rev. 2.0): 58.29; 62.01; 62.02; 62.09; 63.11; 63.99; 78.10; 78.20; 78.30; 82.11; 82.20. In the process of company identification, companies performing predominantly sourcing activities are included in the pool, even if they provide own products as well.

- Sourcing, IT and other relevant associations, clusters and other industry organisations for new players are checked and added to the pool if they meet the criteria.

- News and reports in English and local languages are checked to identify additional sourcing companies not identified through the previous steps.

- Manual desktop research to classify each company into one of the previously defined segments. In cases where a company performs activities in more than one segment, it is classified only in the segment whichcan be defined as primary.

For the financial analysis, we have used the official non-consolidated company records of all vendors to collect information about financial indicators such as average annual headcount, labour costs, operating revenue, taxes, net profit and loss for five consecutive years - 2016-2020. Companies from Kosovo have been excluded from the financial analysis in terms of market size, costs, profitability and employment due to lack of full financial data in the official sources. Where differentiation of employees by activity (sourcing or not) or between segments is not possible, we consider the full headcount of the companies in the calculations of their primary segments.

Operating revenue is used as an indicator of market size. Calculations include sum by segment; average by segment; revenue/employee ratios. Labour costs and social security costs form personnel expenses. Net financial result, taken from the individual financial reports of the companies in our databases, is used as an indicator of profitability. Net profit margin is calculated as net profit/loss over operating revenue.
All original data is taken in the local currency of the respective country and converted into euro using the official exchange rate by the respective national central bank as of the end of the period to which the data refers.

Information for the analysis in the chapters SEE as a sourcing destination and industry trends is derived from official government sources, industry reports by global consultancy companies, international institutions, news articles and expert opinions. Factsheet data about all SEE countries is gathered from official government and statistical sources.

Office space developments are examined based on information provided by our partner real estate consultancies operating in SEE.

In the Vendors landscape chapter, for each company we identify: headquarters (according to the national trade registers), secondary offices in the respective SEE country and abroad (through desktop research of corporate websites, news and job sites), ownership structure (latest available official data) and languages used(through desktop research of corporate websites, news and job sites). Data are grouped, analysed and graphically represented. Companies from Kosovo are also taken into account in the analysis of the vendors landscape.

List of abbreviations

AI – Artificial intelligence

BPO - Business process sourcing

EU - European Union

EUR - Euro

FAO - Finance and accounting sourcing

GDP - Gross domestic product

HRO - Human resource sourcing

IPA – Intelligent process automation

ITO - Information technology sourcing

KPO - Knowledge process sourcing

NACE - Statistical classification of economic activities in the European Community

R&D – Research and development

RPA – Robotic process automation

SEE - Southeast Europe

sq m - Square metre

SSC – Shared service centre

STEM - Science, Technology, Engineering, and Mathematics

UK - United Kingdom

USA - United States of America

VBPO – Voice-based business process sourcing

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