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TO WHOM IT MAY CONCERN

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Further enquiries:

Prof PA van Brakel
Conference Chair: Annual Conference on WWW Applications
Cape Peninsula University of Technology
Cape Town
+27 21 469 1015 (landline)
+27 82 966 0789 (mobile)

BPO and O and the lower cost of bandwidth: Economic miracle or false hope?

JW Mostert
Centre for Development Support
University of the Free State
Bloemfontein, South Africa
jacomostert@absamail.co.za

Abstract

The aim of the paper is to provide and economic impact analysis of the Business Process Outsourcing and Offshoring (BPO and O) policy in South Africa as applied in the Northern Cape province. BPO and O have been identified as one of the key sectors that can act as a major creator of jobs in South Africa. In the State of the Nation Address in 2007 President Mbeki (2007) indicated that the national government would intensify efforts to reduce to cost of telecommunications to promote the BPO and O strategy.The Accelerated and Shared Growth Initiative of South Africa (ASGISA) which aims to take South Africa to a growth rate of 6% per annum also highlighted BPO and O as one of the key sectors to achieve this target for economic growth. BPO and O is also expected to make a major contribution to job creation in South Africa. In the first section of the paper and overview will be provided about the BPO strategy of government. Specific focus will be placed on the DTI incentives available for call centres. The Northern Cape is in the process to establish two call centres. One will be in Kuruman and the other in Sol Plaatje in Kimberley. In the second part of the paper an overview will be provided on the development of these centres. Some of the critical lessons learned in the process will also be shared. In the last part of the paper the possible contribution of the BPO sector to the Northern Cape will be highlighted. The main focus will be the contribution to economic growth and job creation. The paper will also deal with the web applications that will be used in the two call centres in Kgalagadi and in Sol Plaatje to manage the call and complaints received at the call centres.

Keywords: BPO and O, cost of bandwidth, sustainability, job creation

1. Introduction

The paper will provide and economic impact analysis of the Business Process Outsourcing and Offshoring (BPO and O) policy in South Africa. In the first part of the paper and overview will be provided on the importance of the BPO sector. BPO and O have been identified as one of the key sectors that can act as a major creator of jobs in South Africa. In the State of the Nation Address in 2007 President Mbeki (2007) indicated that the national government would intensify efforts to reduce to cost of telecommunications to promote the BPO and O strategy.

The Accelerated and Shared Growth Initiative of South Africa (ASGISA) which aims to take South Africa to a growth rate of 6% per annum also highlighted BPO and O as one of the key sectors to achieve this target for economic growth (ASGISA,2006)

The Department of Trade and Industry also lauched a BPO incentive during 2006 to promote the BPO industry

The paper will also evaluate the impact on the competitiveness of South Africa as possible BPO and O destination in view of the increased opportunities for e-businesses on the World Wide Web due to the expected decreased cost of bandwidth in South Africa. The decrease in the cost of bandwidth is due to the Seacom cable being linked to South Africa (Seacom, 2009).

In the second part of the paper the experience in implementing the BPO strategy in the Northern Cape province will be discussed.

2. Importance of the BPO and O sector in South Africa and the Northern Cape

The BPO and O sector has been identified as one of the key growth sectors in the South African Economy.

In the following sections a perspective will be provided on these views. This will include the Northern Cape Department of Economic Affairs, ASGISA, the Presidency and the DTI.

2.1 The Northern Cape Department of Economic Affairs

The Northern Cape Department of Economic Affairs has evaluated the composition of the Northern Cape economy during 2007.

During 2007 mining still contributed the highest contribution to the provincial economy, contributing 24% to the provincial economy. The services sector contributed more than 50% to the provincial economy.

A deliberate policy decision was taken to diversify the provincial economy away from the primary sector towards the secondary sector and tertiary sector. The decision was based on the notion that most of the successful countries in the world base their economies on the service sector. According to the Economywatch (2009) In 2007, 1.2 percent of total United States Gross Domestic Product (GDP) was contributed by agricultural sector. Industrial sector made up 19.8 percent of United States GDP in 2007. Services sector made up 79 percent of US GDP in that same period. The services sector also contributed the most to economic growth in America in 2006.

The only services sector which the provincial government can actively promote is the BPO and O sector. The Department of Economic Affairs developed a provincial BPO and O strategy to promote the sector in the province.

As first part of the implementation two call centres have been established in Kuruman and Kimberley.

2.2 ASGISA

During 2004 the developmental goal was accepted by the South African National Government to reach the target of halving unemployment poverty by 2014 (ASGISA, 2006:2). In order to reach these goals higher rates of economic growth is needed. The ASGISA was agreed to with the target to reach an annual growth rate that averages 4,5% or higher between 2005 and 2009. The target for economic growth increases from 2010 to 2014 to meet an average growth rate of at least 6% of Gross Domestic product (ASGISA,2006:3).

ASGISA also aims to address the following binding constraints to economic growth:

- Volatility and level of the currency
- The cost, efficiency and capacity of the national logistics system.
- Shortage of suitably skilled labour amplified by the impact of apartheid spatial patterns on the cost of labour
- Barriers to entry, limits to competition and limited new investment opportunities
- Regulatory environment and the burden on small and medium businesses.
- Deficiencies in state organisation, capacity and leadership.

BPO and O has been identified by ASGISA (2006:8) as a priority sector.

According to ASGISA (2006:8) “BPO refers to the trend of business worldwide, especially in countries where labour is costly, to locate back-office activities such as accounts or claims processing or front office activities like call centres in cheaper centres”.

South Africa has attracted about 5 000 jobs up to 2006. In 2006, with the launch of ASGISA, it was estimated that the BPO sector had the potential for 100 000 additional direct and indirect jobs by 2009.

BPO and O is also identified in ASGISA as a possible second economy intervention to try and create opportunities for workers in the second economy to enter the first economy. In this regard ASGISA (2006, 12) stated that the economic cluster of government is committed to ensure that at least 5 BPO operations are established in poor areas with relatively little economic activity. The targeted beneficiaries are youth and women.

2.3 The Business Opportunity for BPO and O as identified by the Department of Trade and Industry (DTI)

The Department of Trade and Industry launched an investigation into to possibilities for the BPO and O sector for South Africa in 2005 (DTI, 2005)

The DTI study support the views expressed in Asgisa in terms of the possibilities for job creation from the BPO and O industry in South Africa. According to the DTI (2005:10) India is forecasting the creation of approximately one million direct jobs from this sector by 2009

According to Nasscom (2009) the BPO market in India grew to $1,6 billion in 2007/8 from $ 0,3 billion in 2003. According to Nasscom the total BPO revenue was $12,5 billion in 2009 in the world.

It also highlighted the fact that the global traditional BPO&O market (US and UK) is expected to grow from approximately $10bn in 2004 to between $50bn by 2009 According to Gartner Dataquest and the international primary research conducted by McKinsey & Company, Paladin Consulting and Consulta Research, companies will aim to focus consumption and investment on their core business processes as well as gaining the intended benefits of their original outsourcing investments in the next year or two. As they mature in their outsourcing lifecycle, they will increasingly look to benefit from outsourcing non-core business processes.

It is projected that between 40 and 50 percent of the growth opportunity will be in the financial services and insurance verticals with early adopters of the Industry endeavoring to utilize and expand their current relationships to include new processes e.g. payroll, order management and online transactions. In addition to growth in the UK and US markets, additional growth of $8-9b is forecasted in continental Europe.

This dramatic market growth will create an additional 3 million direct jobs worldwide by 2008. While one million jobs are likely to remain “near-shore” to the countries generating demand (primarily US and UK), the remaining 2 million will be relocated, based on the price performance (a combination of cost and quality) of location.

The industry has been growing at about 8% per annum over the past 4 years and currently employs about 54 000 call centre agents. (dti, 2009:1)

3. Importance on the cost of Internet

The importance of cost of bandwidth to make the South African BPO and O sector more competitive against competition has already been highlighted in the State of the Nation address in 2007 (Mbeki,2007). Mbeki announced that “Telkom will apply a special low rate for international bandwidth to 10 development call centres each employing 1000 persons, as part of the effort to expand the BPO sector. These centres will be established in areas identified by government. The special rate will be directly comparable to those for the same service and capacity per month offered in any of the comparable countries”.

The importance of the cost of bandwidth is an issue in terms of the competitiveness of the BPO and O industry in South Africa has also been realized by the major role-players in industry. As Mostert (2008) has indicated, the cost of bandwidth decreased significantly during the last decade. Despite these reductions in the cost of bandwidth, South African BPO and O operators was still at a disadvantage compared to international competitors. This situation will change on 27 June 2009 when the SEACOM cable will be switched on.

The traditional concern in South Africa was the fact that the country only had one fix line operator providing Internet access. Telkom is the sole owner of the SAT3 Internet cable linking South Africa with the rest of the world.

The cable will have a 1,28 Tetrabis capacity (Seacom, 2009). The current capacity of the SAT 3 line is only 120Gb. Seacom will be offering a 9.6 Gigabit per second (Gbps) wholesale connection at R267 per Mbps (megabit per second) per month. The SAT-3 cable currently costs between R3 500 and R11 000 per Mbps per month.

It is expected that the bandwidth offered by SEACOM will be 80% cheaper than the current rates in South Africa. Industry role-players indicated that the prices of bandwidth will not necessarily come done immediately because of the fact that broadband operator have to give through the saving to the consumers. Consumers will at least have better bandwidth for the same amount of money than before the SEACOM era.

According to Goldstuck (2009:1) were four main drivers of broadband growth, including: -

- Undersea cables, which will cause a revolution in access and capacity;
- New licences, which will mean that smaller companies can more easily become significant players in the telecoms space;
- Small and medium enterprises which embrace broadband, connecting their staff to the Internet through broadband access; and
- Cellphone connectivity, which will be a driver for broadband access through cellular networks.

Briggs (2009) indicated that the cost of bandwidth in South Africa would also depend on the cost of creating the broadband infrastructure, marketing, client service and equipment.

Goldstuck (2009) warned, however, that cellphone-based broadband access would not be as significant as the media hype suggests. It is possible that the Internet Service Providers will not give the whole saving through to the customers. Customers will at least have better coverage for the same cost.

The BPeSA (2009) has indicated that South Africa is seen to offer a balance of high quality and low costs as a destination for off-shoring business processes. As an example one could typically expect annual cost savings of approximately 50% in US$ terms in running a 1000-seat call centre when compared to a near shore location such as Ireland, while increases in resolution on first call rates are almost 30% higher than a major industry player such as India.

4. Economic evaluation of the implementation of the Northern Cape BPO and O strategy.

From the first part of the paper it is clear that the BPO and O sector shows great potential in South Africa to contribute to job creation and economic growth. It was also highlighted that the Northern Cape government needs to diversify the economy away from the primary and secondary sectors to the tertiary sector.

In view of this two BPO and O centres were established in the Northern Cape. The centres were established in Kuruman and Kimberley respectively.

The project will now be critically evaluated.

5.1 Critical issues

5.1.1 Trained staff.

At the start of the project trained call centre operators were not available. A project was started to train 60 Call centre operators in the province.

The issue of the availability of trained call centre operators is not a major constraint since the high level of unemployed out of school youth that prepared to enter the industry makes it possible to train the necessary staff members

This view is support by the Dti. The DTI (2009:1) indicated that South Africa offers a large and well-educated labour pool with over 300 000 new school leavers and 100 000 graduates entering the workforce annually.

5.1.2 Proposed utilization of the centre.

The most important issue in terms of planning a new BPO and O centre is to first identify the possible users of the centre before the centre is constructed.

According the DTI (2004) companies outsource four types of processes:

- Processes that are linked to suppliers (supply chain management).
- Processes that are linked to customers (sales, marketing and customer care)
- Processes that are linked to production (R&D, contract manufacturing)
- Processes that support the business (human resource management, payroll, real estate, etc. – any process that is not core to any given business).

If a BPO centre is planned it must first identify the function that will be outsourced by a potential company.

Table 1 gives an overview of the relative importance of each sector in India

Table 1 Market Estimates of BPO revenue in India

India's BPO Market Estimates					
Key Service Line	**1999**	**2001**	**2002-2003**	**2003-2004**	**2005-2006**
HR	5.4	3.5-4.0	0.45	0.75	1.65
Customer Care	4.1	8.0-8.5	8.3	12	15
Payment Services	2.9	3.0-3.5	2.3	4.3	6.2
Content Development	2.6	2.5-3.0	5.1	5.5	6.7
Administration	1.3	1.5-2.0	3.25	5.4	8.4
Finance	0.7	2.5-3.0	3.25	5.4	8.4

All estimates in billions

From table1 it is clear that finance provided the most business in India during 2005/6

The size of the centre must be of such nature that it will be able to accommodate the needs of potential customers that are prepared to buy seats in the proposed centres.

In a call centre with 50 seats, like the centre established in Kuruman, it is possible to accommodate the needs of local participants like the municipalities delivering information services at the call centre.

The provincial department of economic affairs also booked four seats to be used for the consumer protection function in the department. Customers with complaints can call a toll-free number to lodge complaints against businesses that did not adhere to sound business practices.

It is also possible to use the centre to promote SMME development in the Northern Cape province.

These activities will however only create a limited number of jobs in the call centre industry.

It is however not possible to attract major national role-players to the centres because they already operate much bigger call centres in Johannesburg and Cape Town to service their national customer base.

ABSA's home loan division is currently operating a call centre with approximately 1500 seats in Johannesburg. They are not prepared to decentralize these functions to a rural area like the Northern Cape.

The main reasons are the size of the call centre in Kuruman. Another factor is that the call centre operators will not be prepared to relocate to the Northern Cape.

6. Conclusion

It can be concluded that the BPO and O sector shows significant potential to contribute to economic growth and job creation in South Africa.

The decreasing cost of bandwidth due to the installation of the various broadband links to South Africa enhances the competitiveness of the BPO and O industry in South Africa.

One of the most important considerations in planning a BPO and O centre should be the intended utilisation of the centre. This will influence the size of the centre as well as the services to be delivered.

BPO and O centres are not generic and the possibilities that the industry provides for job creation should utilized cautiously to avoid that BPO and O ends up being a false hope instead of a possible miracle.

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