

# Onshore, Nearshore, Offshore: Unsure?

A 2010 Romanian Perspective ➤



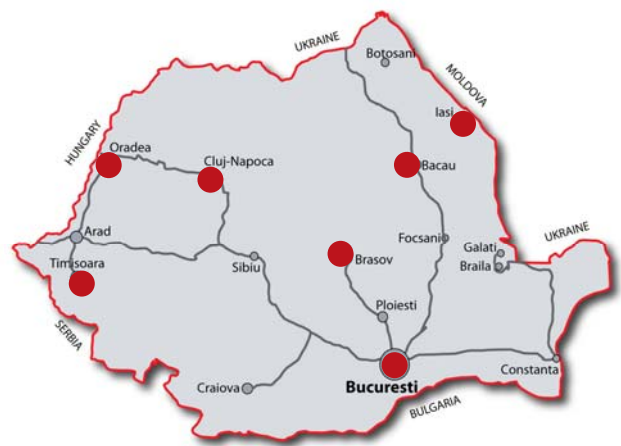
# BPO companies became one of the main employers in Romania. Main secondary cities of Romania recently established as shoring locations.

## Introduction

While Bucharest is considered as Romania's main hub for shoring services such as Business Process Outsourcing (BPO) and Shared Services Centres (SSC), over the last year a number of secondary cities have emerged as attractive shoring locations.

BPO's and SSC's have either established themselves in these secondary cities or through the acquisition of local companies. The majority of the main players in Bucharest have each opened at least one centre in the secondary cities around the main established university hubs. The most recent examples are represented by the expansion of Wipro, Hewlett Packard, Siemens Bosh in Timisoara (311,586 inhabitants); Banca Intesa San Paolo Bank, Route 66, IBM's second center in Brasov (278,048 inhabitants); Genpact, Bombardier in Cluj Napoca (306,474 inhabitants); Capgemini in Iasi (308,843 inhabitants). In addition to these, some BPO's and SSC's have established only in the secondary cities. Evalueserve and Exl opened in Cluj Napoca, while XL World opened operations in Iasi, Bacau and Oradea, to mention just a few.

## Secondary Cities established as Shoring Destinations in Romania



## Knowledge Process Outsourcing (KPO) in Romania

Evalueserve, the world's largest Knowledge Process Outsourcing (KPO) company, doubled the number of employees at its European research centre last year and plans to continue its growth in 2010. The Romanian office operates in Cluj-Napoca and brings together analysts from nine countries (Sweden, Germany, India, Latvia, Russia, Republic of Moldova, Poland, France and Romania), all of them specialising in different fields and covering 13 language capabilities.

Evalueserve provides custom research and analytic services to a global client base of 5000 companies including: Investment Banks, Hedge Funds, Private Equity Firms, Law Firms, VC Firms, Intellectual Property Firms and Consulting and Research Firms in the following areas – Financial and Investment Research, Business Research, Market Research, Intellectual Property, Expert Network, Data Analytics and Modelling and Knowledge Technology Services. The company has over 2,000 professionals in its research centres in Delhi-Gurgaon (India), Shanghai (China), Santiago-Valparaiso (Chile), and **Cluj Napoca** (Romania). Additionally, 65 client engagement managers are located in all major technology, business and financial centres globally.

## Executive Summary

- Bucharest is in competition with top secondary cities to attract BPO/SSC operations. KPO activities are to emerge in Romania in line with other CEE countries
- Cluj Napoca case studies. Cluj Napoca established as leading shoring destinations competing with Timisoara. Operations of Evalueserve and XL World are described in the report
- The Romanian Government is able to provide incentives for investments which ensure the development of key sectors and contribute to the achievement of one of the following objectives: regional development and cohesion, environmental protection and rehabilitation, energy efficiency increases and/or production and use of energy from renewable energy sources, R&D and innovation processes, workforce formation and employment
- Modern, flexible and high spec office space available in Bucharest from € 10-12/ m<sup>2</sup>/ month. Local and international developers willing to accommodate and deliver turn-key solutions

### Labour Market in Romania

Since the middle of the last decade, Romania has been identified as a favoured nearshore location. Romania's attractiveness was largely due to a workforce exhibiting solid technical proficiency, particularly widespread foreign language competencies and a large labour force at a comparatively low wage rate. The economic downturns has further pushed salaries lower in comparison with the salaries of the past year by approximately 30% and remain below the average of other Western and CEE countries. At the end of Q3 2009, the highest unemployment rates were recorded in counties located in the central regions of Romania (12.1%). The predominance of agricultural activities and economic restructuring processes in these counties are typical features of the regions where unemployment rates are high. The lowest unemployment rates were recorded in Bucharest (4.0%), while on a national level, an unemployment rate of 6.8% was recorded. For 2009, the minimum gross wage per month in Romania was 600 RON according to National Committee for Prognosis estimations (approximately €141.6)

While Bucharest remains an interesting destination to set-up business, many companies have started to move to other attractive large cities such as Cluj-Napoca, Iasi, Timisoara, Brasov and others. Salary ranges in Romania vary depending on the location. As expected, salaries in Bucharest remain higher than those in the other cities by 15-20% on average.

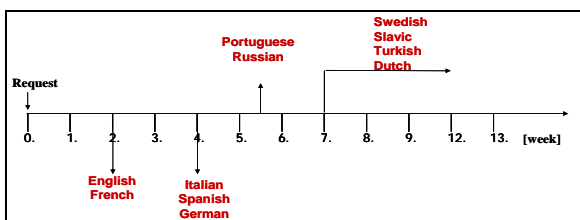
Sample Gross Monthly Wages 2009			
Job Position	RON	EUR	USD
Clerk	1,907-2,542	450 - 600	625-834
Help Desk Specialist	2,331-2,966	550 - 700	764-973
Junior Accountant	2,754-3,390	650 - 800	903-1,112
Call Center Agent	1,271-3,814	300 - 900	417-1,251
Accountant	3,390-4,237	800 - 1,000	1,112-1,390

Source: Grafton, 1EUR =4,2373 RON; 1USD = 3,0493 RON, Annual Average Exchange Rate issued by NBR

Multinationals have decided to set up their business in Romania for the following main reasons:

- Highly educated and multilingual labour force
- Large number of university graduates
- Second largest pool of qualified candidates in the CEE region
- Strong technical / engineering / IT skilled workforce
- Labour cost

### Recruitment Timeline Depending on languages



Romania features a particularly strong skilled workforce throughout the country. In 2008/2009, around 900,000 students were enrolled, out of which 480,239 students were in state owned universities and 410,859 students in private universities. Romania provides 56 state-owned universities with 420 faculties, while in the private system there are 50 universities with 197 faculties. The leading university hub is Bucharest (44%), followed by Cluj-Napoca and Iasi (each with 7%), Timisoara with 5% and Craiova with 4%.

**Evalueserve in Cluj Napoca**

- The centre in Cluj-Napoca facilitates communication and delivery of services to European clients and further reduces the time gap between other offices, ensuring seamless 24x5 operations. The delivery centre conducted 228 projects for 65 clients in 2009, with 85% of clients returning for recurring work.
- Despite the current economic situation, Evalueserve's Romania office has doubled in size in 2009. This has been driven by the quality of the research that we provide and the value that we are able to offer our clients. We are able to deliver research in German to our clients in German-speaking Europe and in French to our clients in French-speaking Europe. Being within the EU, we are also able to offer data privacy as per the Data Protection Directive of the EU as well as near-shore and on-shore options to our European clients. These factors help us put together a comprehensive offering to clients.

**Pushkar Chatterji**  
Country Head of Evalueserve, Romania

### Identified Top Motivators to Work in a BPO/SSC/R&D/KPO

Professional Development Opportunities:

- Rotation
- Professional training
- Professional and people management career opportunities
- International training possibilities, international career opportunities
- Work Environment/ Culture:
- Friendly, modern office accommodation
- Team building, team - and company events
- Stable and calculable organisation

A key and important metric for these centres are the attrition rates (staff turnover rate). Recent studies show that in BPO/SSC centres already opened for 1-2 years, attrition rates range between 30-40%, while in centres already open for 3-4 years, attrition rates decrease to 20-30% on average.

## Business Environment Support

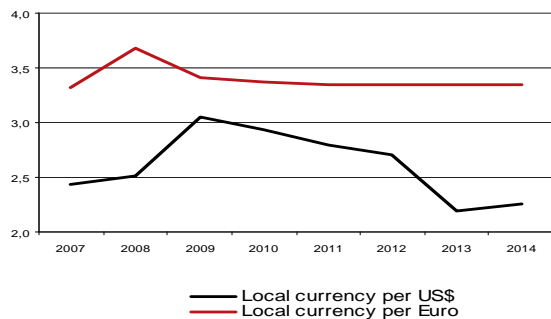
Only a modest economic recovery is expected in 2010, with growth forecasts at around 1% (the government estimates 1.3%). Growth in the euro zone will also be fragile in 2010, and demand in Romania's main EU export markets will remain weak.

Although having switched to an inflation-targeting regime, the national bank reserves the right to exercise interventions to preserve the orderly appreciation—or depreciation—of the local currency, the RON.

Renewed upward pressure going forward could also induce the bank to intervene in order to preserve external competitiveness, not least because of the significant appreciation of the RON in recent years, high domestic inflation and rapid real wage growth have undermined and exposed the weakness of the domestic economy and the need for structural reforms.

The exchange rate is still an important additional focus of the central bank's inflation-targeting policy, and the bank will not allow too rapid movements of the exchange rate, intervening to support the currency or encourage/discourage short-term foreign capital inflows through manipulation of the repo rate.

### Exchange Rate: Medium Term Outlook (Units, annual average)



Source: Romania Country Report - Global Insight (Jan 2010)

Romania offers a highly competitive taxation scheme relative to many of its European peers. Since January 2005 the amended Fiscal Code has applied a flat tax rate of **16%** on income and corporate profits, one of the lowest tax rates in Europe.

In addition, in 2010, the Government will undertake a set of measures in the following six areas:

- Restructuring the public sector to reduce government employment, together with a reform of the wage system
- Pension reform
- Implementation of a Fiscal Responsibility Law and the medium-term budgetary framework
- Public enterprise reform
- Restructuring the financial relations between local governments and self-financed entities to assure greater financial accountability
- Improvements in tax administration

The Romanian Government is able to provide incentives for investments that ensure the development of key sectors and contribute to the achievement of one of the following objectives: regional development and cohesion, environment protection and rehabilitation, energy efficiency increases and/or production and use of energy from renewable energy sources, R&D and innovation processes, workforce formation and employment.

State aid schemes for stimulation of investments are provided under the following law frame:

- Decision 1680/2008 regarding the implementation of a state aid scheme for ensuring sustainable economic growth
- Decision 753/2008 regarding the implementation of a state aid scheme for regional development through stimulation of investments
- Decision 1164/2007 regarding de minimis grants for the development and modernisation of companies

The main eligibility criteria for applying for the state aid scheme under the Decision 1680/2008 are the following:

- Performing an initial investment exceeding the RON equivalent of €30 million
- Creating at least 300 new jobs as a consequence of the initial investment
- The beneficiary's contribution must be of at least 50% of the eligible costs

The maximum state aid intensity for a single company is of €22.5 million for region 8 (Bucharest – Ilfov) and of €28.125 million for the rest of the country.

Decision 1680/2008 is applicable starting from 2009, up until 2013.

The main eligibility criteria for applying for the state aid scheme under the Decision 753/2008 are the following:

- Performing an initial investment of over €100 million
- Creating at least 500 new jobs as a consequence of the initial investment
- The beneficiary must be a large enterprise (an enterprise other than a small or medium-sized enterprise as defined under Law 324/2004)
- The beneficiary's contribution must be of at least 50% of eligible costs

The maximum state aid for a single company is up to €30 million for region 8 (Bucharest– Ilfov) and up to €37.5 million for the rest of the country. The beneficiary of the State aid shall submit a request for an agreement in principle for financing and the relevant authority confirms in writing that, subject to detailed verifications, the project meets in principle the eligibility conditions.

Decisions 1680/2008 and 753/2008 generally apply to all economic sectors with few exceptions, such as fisheries, steel industry, shipbuilding, etc.

## Real Estate Infrastructure

Bucharest and the main secondary cities of the country are currently able to accommodate real estate requirements of multinational BPO/SSC service providers. Over the last 2-3 years a number of projects were developed in Bucharest to accommodate the requirement of such occupiers. In addition, the increased interest to establish similar operations in the main secondary cities convinced local developers to speculatively deliver medium sized (3,000 to 5,000 m<sup>2</sup>) office buildings. The only exception is Timisoara, a western-based secondary city, where a local developer, Modatim Investment SA, offers a 34,000 m<sup>2</sup> phased prime business complex to interested occupiers. However, the real estate market responded very rapidly to the increased presence of these occupiers in Romania. In the middle of the decade, the lack of larger buildings in decentralized locations in Bucharest, coupled with the high interest to open operations in Romania, was evidenced in longer and larger leases, even in Class A office buildings. Starting with 2006-2007, larger business projects were announced which were delivered in the second half of 2009. We list below the main features of the market which support the expansion of BPO/SSC/KPO companies:

### 1. Experienced Developers/ Landlords as Partners

Developers/owners of projects which currently accommodate BPO/SSC/R&D/KPO operations are represented by both local and international developers. In the past year larger buildings were delivered in the established back office locations belonging to international developers (e.g., Global Finance – Global City, Kendama/BSGP – Cubic Center, Crowne/REEFF – Upground Ph II). A positive example of how local developers adapted their project to BPO requirements is ID Group/Novo Parc, with 2 major projects delivered in Bucharest: **Novo Parc** – over 65,000 m<sup>2</sup> in 6 buildings accommodating HP's Global eBusiness Operations Center (GeBOC), GE Money Bank, P&G, Ringier, Raiffeisens Bank back offices, and **West Gate** – over 75,000m<sup>2</sup> in 5 buildings accommodating back office operations of Siemens, Accenture, Citibank, Alpha Bank, Ericsson, Dacia Renault, WNS. The 2 projects were developed to especially accommodate BPO centers, in the close proximity of metro stations, offering excellent technical features, a wider range of facilities to the occupiers/employees, larger floor plates and highly attractive rents.

### 2. Comprehensive Market Practice

Bucharest market practice is in line with Western European markets, while in secondary cities, market practice is moving towards institutional market standards.

Local developers from secondary cities are becoming more flexible due to their alignment to the market practice in Bucharest as well as to the requirements of multinational companies interested in establishing a presence or who are already established in their projects. The alignment process will continue as we expect these markets to continue to mature.

### 3. High Quality Office Space

Recently delivered business parks have been developed according to western standards. Newer projects provide Class A office accommodations in Class B locations. Larger multinational occupiers are able to significantly influence the design and development of the newer projects. Occupiers willing to pre-lease their spaces before the start of construction have the greatest say in the development process, with the resulting projects in large part matching their preferred or requested technical specifications. In other cases, landlords contributed the fit out of the leased space. In this regard 2009 recorded an increase of fit-out contributions by almost 50% in comparison with those of 2007 and 2008. In addition, there was a notable increase in the typical GLA (over 15,000m<sup>2</sup>), and, more specifically, an increase in the size of the typical floor plate (most commonly 1,500-2,000m<sup>2</sup>, although in some cases reaching 7,000m<sup>2</sup>).

#### EXL opened their first center in Cluj-Napoca

- Europe is a very important market for EXL and our entry into Romania is part of our strategy to support the requirements of our clients in this market.
- We selected Cluj-Napoca to set up our new delivery centre because it will strengthen EXL's multilingual capability and provide access to a very deep talent pool. Cluj is fast emerging as a leading outsourcing destination in Europe and offers high quality skills in finance and accounting services. A large student population in Cluj ensures a good supply of talent as we keep expanding our operations in Romania.
- Some of the key drivers in selecting Cluj were a robust education infrastructure, its proximity to our clients in Europe and it helps us meet their demands for near-shore operations.

**Mr. Rohit Kapoor**  
President and Chief Executive Officer  
EXL Service

Market Practice	Decentralized Bucharest	Timisoara	Cluj Napoca
Average headline rents	€12-15/ m <sup>2</sup> / month	€11-14/m <sup>2</sup> / month	€9-11/m <sup>2</sup> / month
Service charges	approx. €4-5/ m <sup>2</sup> / month	approx. € 3.5 - 4/ m <sup>2</sup> / month	approx. €2.5-3/ m <sup>2</sup> / month
Rental basis	paid monthly in advance with rents denominated in € but paid in RON; full rent is typically payable for pro-rata common areas	paid monthly in advance with rents denominated in € but paid in RON; full rent is typically payable for pro-rata common areas	paid monthly in advance with rents denominated in € but paid in RON; full rent is typically payable for pro-rata common areas
Lease length	typically 5-year leases, 3-year rare and usually not applicable in new buildings	typically 5-year leases, 3-year rare and usually not applicable in new buildings	typically 5-year leases, 3-year rare and usually not applicable in new buildings
Security of the lease	bank guarantee or cash deposit equivalent of 3 months rent, service charges, and car parking fees, all increased by VAT		
Rental increase	annually according to Consumer Price Index (CPI) European for €-denominated leases		
Insurance	landlord covers costs of building insurance (recovered through service charge), tenant covers insurance of own premises, contents and civil liability		
Other incentives	rent-free period depending upon the size of the leased area and length of the contract, additional fit-out contribution and built to suit standards if the project is under construction		

Source: Jones Lang LaSalle, March 2010

## Modern Building Standards in Bucharest

Standard	
• 4-pipe HVAC system	• telecommunication lines with switch board
• suspended ceilings	• raised floors
• carpeting	• generator
• lighting	• electrical cabling
• access control	• gypsum-cardboard walls
• finished toilets and kitchens	• standard doors

Source: Jones Lang LaSalle, March 2010

### Tenant-favourable Market Conditions

Bucharest is currently experiencing a tenant-favourable market. Larger leases, pre-leases or lease renewals succeed to attract higher incentives in terms of rent free periods or fit-out contributions. Other indicators supporting this tenant market are summarized below:

#### 1. Rents are softening

Prime rents in Bucharest have the potential to further decrease throughout 2010. Rents will be most affected in decentralized, back office locations, although even prime CBD headline rents have come under downward pressure. While prime office rents remain in the range of 19-21€/m<sup>2</sup>/month, required fit-out contributions and free rent periods are driving net effective rents closer to the 17-18 €/m<sup>2</sup>/month level. In contrast, headline rents in the decentralized markets of Bucharest are around 10-12€/m<sup>2</sup>/month, although the asking rents remain 15-20% higher. In major secondary cities of Romania such as Timisoara, Cluj, Brasov and Iasi, the headline rents (for spaces more or less classified as Class A offices) vary between 11-14€/m<sup>2</sup>/month. Considering the lower level of headline rents, landlords are still reluctant to negotiate incentives similar to those granted in Bucharest.

#### 2. Relatively large availability of options to lease

A wide variety of office expansion or relocation options are available in Bucharest. Pipera City, Pipera North and Western submarkets offer several buildings available for immediate occupancy which can accommodate requirements ranging from 2,000 m<sup>2</sup> to up to 35,000 m<sup>2</sup>. For top secondary cities, the largest requirements immediately available range from 1,000-2,000m<sup>2</sup>. Larger options in secondary city developments exist in refurbishment projects or may be accommodated on a pre-lease basis in upcoming developments.

#### 3. Vacancy rates in existing office blocks are stabilising

The vacancy rate in Bucharest drastically rose in 2009. As of Q4 2008, the vacancy rate stood at 1-2%; currently, the overall vacancy rate is closer to 15.5-16% (as of Q4 2009). However, it is important to note that there is a great discrepancy between the vacancy levels in the CBD (representing 5% for grade A space) and the vacancy levels in decentralized submarkets (reaching as high as 22%). For secondary cities the vacancy rate is estimated to be 5-7%. For 2010 the vacancy rate could further increase in Bucharest, unless demand comes back to the levels registered in 2007-2008. Secondary cities are less affected by the fluctuation of the vacancy rate. We estimate that secondary city vacancy rates of 5-7% may decrease if the existing occupier base expands and/or if

there is increased interest in BPO companies to establish or expand operations in these cities. This trend is increasingly apparent.

### Bucharest - Office Buildings which can immediately accommodate larger office requirements

Buildings	Total Area (GLA)	Available Area	City
Uppground Coporate Ph II	60,000	30,000	Pipera City
Cubic Center	27,000	27,000	Pipera North
Global City	45,000	20,000	Pipera North
West Gate PH 6	15,000	15,000	Western area
Pipera Business Tower	12,100	11,000	Pipera City

Note: Listed in accordance with available area, as of March 2010

### 4. Bucharest Infrastructure

There are several major infrastructure projects either proposed or currently underway in Bucharest. Given the scale of, and the required time to execute, these projects, some developers are considering sites currently well connected to the existing infrastructure, especially metro lines. Over the last 12 months we have recorded the delivery of certain key infrastructure projects:

- i) the upgrade of the DN1, which enhanced the route to the Otopeni/Henri Coanda International Airport;
- ii) the flyover in Pipera, which ensures more fluid access to the decentralized Pipera North Submarket;
- iii) the ongoing works on the Basarab overpass which will alleviate the north-south traffic flow;
- iv) the metro line connecting the CBD with the international airport in Otopeni, to be developed over 7 years and financed through a Japanese ODA (official development assistance) loan.

### XL World – choice of location

We chose Romania for several reasons:

- Multilingual capability
- Contained labor costs
- Centralized model
- Flexible skills
- EU membership (laws and data regulations)
- Proximity – all our centers are located in cities that have international airports

We follow a business strategy of opening sites in second-tier, mid-sized cities, connected to the rest of Europe through an international airport, with daily connections to UK, France, Italy, Germany, etc.

This allows for:

- Lower attrition (turnover) which allow for a more efficient HR policy
- Lower costs
- The cities where we are present have universities which gives us access to a renewing pool of qualified resources

**Ms. Anelia Trifu**  
Account Manager  
XL World

## Conclusion

Our objective with this report is to identify and provide a greater understanding of the trends in the BPO/SSC industries and to present a set of facts and figures necessary in supporting informed decision-making regarding a shoring location.

Romania continues to attract key BPO/SSC operations, not only in Bucharest but also in major secondary cities of Romania such as Timisoara, Cluj-Napoca, Brasov, Iasi, Bacau and Oradea.

For multinational companies seeking to set up cost-efficient, high-quality operations, Bucharest and these secondary cities offer key competitive advantages: proper office accommodations, a highly-qualified and multi-lingual force work, and connectivity to and from major European capitals.

We have identified and supported the case for the top 5-7 secondary cities of the country to accommodate BPO/KPO operations. In particular, we have highlighted as a case study the potential of Cluj-Napoca by introducing examples of centres which are already successfully operating here: Evalueserve, XL World and the recently established EXL.

Romania enjoys a key and increasingly important strategic location in the CEE Region. A return to economic growth, combined with political and social stability, supports Romania as a favourable and sustainable long-term partner for nearshoring / offshoring activity.

## Information on content providers

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**The Grafton Group** was established in 1982 and we have 81 offices in 19 countries. We have placed candidates in over 70 Countries. Our two primary brands are Grafton Recruitment and SpenglerFox. Grafton focuses on a 'success fee' basis and temporary workers. SpenglerFox is our executive search brand. The case studies and commentary in this set of reports are just a short selection of the staffing work we have done with our client partners across Central and Eastern Europe. Our consultants are experts in their field and client references are available by request.

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