

# Why Philippines Should Be the Next Destination for Hyperscalers



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## 1. Summary

As hyperscalers partner with more ASEAN telecom operators across the region, the Philippines is becoming one of the most promising destinations for continued expansion of local ‘availability zones.’ This is due to previous success in outsourcing; long-term government strategy; a favorable business climate; demographic shifts to hybrid working, and an accelerated cloud adoption. The largest energy and telecom operator are also setting their sights on sustainability.

## 2. Early Tech Industry & Investment Climate

The Philippines is among the global leaders of Business Process Outsourcing (BPO). Industry statistics show that there are nearly 800 call center facilities alone in 20 key locations.<sup>1</sup> BPO is the largest private sector employer in the Philippines; accounts for 10 to 15 percent of the global market; and has grown at a compound annual rate of 10 percent over the past decade. With businesses re-assessing their strategies around the Future of Work, the BPO market will continue to transform as core systems continue to migrate from the premise to cloud; and as more workers move fixed locations to hybrid working. The latter will mean more workers from remote and rural locations joining the workforce which is also increasing the talent pool.

Artificial intelligence (AI) and analytics are also changing the BPO industry. Besides automating and optimizing business processes, AI is being used in areas such as voice biometrics to authenticate the customers identification. It is also being used to gauge customer sentiment to help agents resolve issues faster. AI chatbots, for example, are becoming a common approach for businesses to engage their customers, resolve queries faster and recommend the next course of action. The integration between human and virtual agents in contact center. Robotic Process Automation (RPA) is supporting many workers in the Philippines to automate repetitive tasks to provide a richer employee experience which reflects positively on customers.

The great success of the BPO market in the Philippines was hard fought. In 1995, the Congress passed the Philippines Economic Zone Act (PEZA) which dramatically improved the investment climate and facilitated public-private partnerships. In 1997, SYKES Asia became the first contact center to arrive in the Philippine shores which set the stage for other global businesses to follow and decades of success. For over ten years, The Philippines has been regarded as a global leader for BPO.

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<sup>1</sup> According to the Call Center Directory of the Philippine Economic Zone Authority (PEZA), the Philippines now has 788 call centers over 20 key locations.

In 2021, the Philippines ranked in the top-10 again in Kearney's Global Services Location Index which ranks more than 60 countries by financial attractiveness, people skills and availability, business environment, and digital resonance category.<sup>2</sup> The Philippines also ranks second, behind India, for financial attractiveness. Technology, especially the many use cases of AI, will continue to change the face of the BPO sector. The Philippines has a stable sector evolving with the changing times.

BPO has moved from a premise-based capability, often tied to a location, to a cloud-based model to support a more remote, heterogeneous, younger, educated and environmentally conscience workforce. Yesterday's voice-centric businesses is giving way for the need of data. This is data to drive in real-time situational context. Data to understand the customers online journey before engaging an agent or for making recommendations. Some businesses are using data to set targets on NPS at each stage of a non-linear buying journey. Others are looking at data to understand the relationship between 'employee experience' and 'customer experience', including loyalty and advocacy. Macro-economic trends, demographics, cloud and analytics is helping the Philippines transition for the needs of hyperscalers.

### 3. Yesterday's Success Lays Groundwork for Tomorrow's Hyperscalers

As the Philippine market can celebrate past successes within the BPO segment, this segment has evolved over the years with the active support from the government.

- In 2012, the Philippines was among the first countries to put forward a data privacy law setting out guidelines for the protection of data, fines for non-compliance and requirements to disclose of breaches to the privacy commissioner. Other countries, such as Australia, have since enacted similar frameworks.
- In 2015, the government passed a law to create the Department of Information and Communications Technology (DICT) which oversees and plans a national ICT development agenda. The DICT also provisions to improve access to ICT resources, such as broadband (essential for GDP growth). There were additional guidelines introduced for businesses and consumers with regards to privacy, security, and confidentiality of data. The data privacy and security regulations drive cybersecurity development and adoption in the country.

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<sup>2</sup> Kearney, 2021. Toward a global network of digital hubs: The 2021 Kearney Global Services Location Index. (Available at <https://www.kearney.com/digital/article/?a/the-2021-kearney-global-services-location-index>)

- In 2017, the Philippines government announced a cloud-first strategy for all federal and local governments to drive digital transformation not only within the public sector but equally across the whole country.
- In 2021, the Department of Trade (DTI) and Industry and the Board of Investments (BOI) announced incentive programs for at least three global hyperscalers to open new facilities in the country.

## 4. Strong Demand for Cloud Services but Local Hosting is Still a Key Requirement

A GlobalData 2021 study shows that over half of the enterprises revealed their plan to migrate more workloads to the cloud. Over 20 percent of these customers foresee having all of their corporate data migrated by the end of the year. The strong cloud demand is driven by hybrid operations such as remote working; the advancements of vertical applications like e-learning, e-government and remote healthcare; as well as wider adoption of analytics and Artificial Intelligence. This is also enabled by continuous network expansion such as 5G and fiber domestically as well as internationally. This will drive the cloud market in the Philippines to grow solidly to US\$ 2.8 billion in 2025.<sup>3</sup>

As with many markets in the ASEAN region, in-country hosting is a crucial requirement for most enterprises. Over two thirds of enterprises indicated that local facilities are an important/very important criterion when considering new cloud services.<sup>4</sup> There are many reasons for this, such as the requirement for low-latency and higher performance when applications are hosted locally, cyber-security, business continuity, and data sovereignty. Many businesses need the speed and agility of hyperscale solutions with the security and regulatory compliance that local facilities offer for the many different industries verticals operational in the Philippines. Global hyperscale providers are often favored due to their wide range of services, speed to release new features, and overall technical prowess. The local hosting need shows an opportunity for global cloud players to expand their footprints and host their services from within the country.

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<sup>3</sup> GlobalData ASEAN Research, 2021

<sup>4</sup> Ibid

## 5. 5G and Edge Computing is The Next Cloud Opportunity

The Philippines is the first country to offer 5G in ASEAN. The high market awareness coupled with various industry initiatives led by service providers such as PLDT are driving the development of new opportunities such as multi-access edge computing (MEC). Latency-sensitive applications such as robotics, autonomous vehicles and mixed reality will drive the need for workloads to be hosted closer to devices. GlobalData study shows that 29 percent of Philippine enterprises are considering edge computing within the next three years.<sup>4</sup> This represents a major opportunity for service providers such as hyperscalers and telecom players. There are many use cases for the provider edge, potentially extending local micro-data centers in closer proximity to the workloads. Some of the opportunities include the infrastructure-less branch, smart buildings, and industrial automation. The edge can extend even further to areas such as gaming and video streaming. Augmented and Mixed Reality, for example, is being considered to support frontline to transform on-site support.

A GlobalData study with 2,341 enterprises globally in Q2 2021 shows that augmented reality was perceived as the most disruptive technology driven by the current and post-pandemic demands such as in healthcare and retail. This opens additional opportunities in areas such as digital twinning – creating digital high-definition representations of the physical world – and extending remote expertise to the frontline through other forms of collaboration. While the digital twin is still new, there is already high interest especially in industries such as construction and manufacturing.

## 6. Convergence on Sustainability

Sustainability is one of the most important themes discussed in corporate boardrooms worldwide. As more business move their digital infrastructure to the cloud, there is also the need to consider issues related to environmental and social governance. Data centers generate about 3 percent of all power on the planet. Climate scientists overwhelmingly agree that the global economy must reach net-zero greenhouse gas (GHG) emissions by 2050 to ward off the catastrophic effects of climate change. The Philippines' largest electric distribution utility, Meralco (Manila Electric Company) is looking to increase the distribution of green energy, reduce its greenhouse emissions and electrify its fleet and reduce its waste management through an ambitious sustainability program, Live Life.<sup>5</sup>

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<sup>5</sup> Meralco Annual Report, 2021. (Available on: <https://company.meralco.com.ph/investor-relations/annual-reports>)

PLDT, the incumbent telecoms provider, is also affiliated with Meralco through Metro Pacific Investments, the Philippine-based investment management and holding company of First Pacific Company Ltd. PLDT also has comprehensive sustainability programs and wide collaborations at the global and local levels, with focus on reducing its carbon footprint and improving environmental conservation. Key initiatives include its target to achieve carbon neutrality by 2030 by reducing carbon emissions (e.g., offices, network infrastructure and data centers); extending the use of renewable energy; and expanding investment in environmental projects.<sup>6</sup> There are also initiatives driven by various organizations such as Philippine Green Building Initiative (PGBI) that provides assessment and certification to construction projects in the country.

Further, the Department of Energy (DOE) is also driving various initiatives on renewable emerging including Renewable Energy Portfolio Standards (RPS), Green Energy Option Program and Net Metering Program, to achieve 35 percent share in the power generation by 2030 and at least 50 percent in by 2040. There are many other opportunities between traditional power sectors and data center operators to drive a renewable agenda.

## 7. The Philippines as the Next Logical Destination

The traditional demands for data centers, such as high availability and uptime, security (i.e., physical and data) are as important as energy efficiency and sustainability. A web-scale company looking at geographic expansion should consider the Philippines because of its rich heritage in BPO which is undergoing a rapid migration to the cloud; Future of Work programs that are bridging the urban/rural divide bringing in more skill sets from remote areas into the corporate culture; and the roadmap of hyperscale companies in areas such as edge and hybrid align to the business demands of the market.

Important groundwork has also been completed to support the investment case for hyperscalers. This includes promoting a cloud-first agenda, setting a national ICT strategy, and protecting consumer privacy. With the largest telecom provider and energy distributor committed and aligned to the same principles of the largest web-scale companies around environmental and social governance, the opportunity to invest in the Philippines is now. It is as vibrant and long-term as BPO was in the 1990s.

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<sup>6</sup> PLDT 2020 Sustainability Report. 'Reviving Livelihood, Enriching Lives'. (Available on: <http://www.pldt.com/docs/default-source/annual-reports/2020/pldt-interactive-2020-sr-jun3.pdf?sfvrsn=0>)

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The current pandemic has only accelerated the speed and pace for Digital Transformation in the country. Nearly four out of five businesses are migrating workloads to the cloud.<sup>7</sup> Collectively, these trends support market readiness and competitive advantage. However, the ‘winner take all’ economic laws of hyperscale have changed the equation: it is easier to be a first mover, than a ‘fast follower’.

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<sup>7</sup> GlobalData ASEAN Research, 2021