MASIT

ICT Chamber of Commerce

OUTSOURCING REPORT

2019

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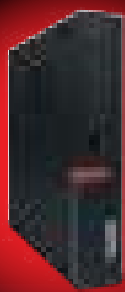

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CONTENTS

ABOUT MASIT - ICT CHAMBER OF COMMERCE

MASIT – ICT Chamber of commerce is a volunteer, non-governmental, non-commercial and non for profit organization. The chamber was founded in 2000 as an initiative of the top fifteen Macedonian IT companies and was operating as an Association within the Economic Chamber of commerce of North Macedonia. In April 2007, on the Annual Assembly of MASIT, decided to make legal transformation of MASIT from Association to a separate ICT Chamber of commerce.

Today, MASIT is the voice of the North Macedonian ICT industry. The chamber represents companies of the ICT sector in North Macedonia including: software and IT services companies, hardware companies and distributors, carrier and other telecom companies, as well as training providers and ICT consulting companies. MASIT members are the leading ICT companies on the Macedonian market. The companies are regularly working on complex projects on national and international level. They are led by experienced staff which are ready to response and work on projects on the latest ICT technologies, such as: Artificial Intelligence, Machine Learning, Robotics, Data Science, Blockchain, Cyber Security, Internet of Things Virtual Reality and Augmented Reality.

VISION:

MASIT to be the enabler for growth of the Macedonian ICT businesses, their recognition and image domestically and abroad, as well as enriching the Macedonian prosperity and economy by having stronger, organized and progressive ICT industry.

MISSION:

MASIT is the voice and resource of a competitive ICT sector, supporting an innovation-driven economy and a key contributor to the nation's prosperity.

GOALS:

The following goals have been established to achieve the vision and mission stated, as well as to satisfy the needs and interests to retain and expand membership.

- Public dialog – to strengthen MASIT recognition and role in the development of ICT related Legislation, Policy and Market regulation through protecting and representing the interests of the ICT business community.

- Competitiveness – to increase the competitiveness of the members through capacity building, fostering innovation, lifelong learning as well as certification of companies and qualification of human resources.

- Collaboration and Networking – to support the collaboration and networking of the ICT companies domestically, regionally and internationally through events, projects, partnerships and competition awards. To build and enhance MASIT network with recognized organizations in order to improve Macedonian ICT industry brand, recognition, image and reputation.

- Export capacities – to support the exports through improving the export promotion policies; international branding and position; promoting clusters and collaboration; strengthening export capabilities and knowledge; fostering quality and company excellence with ultimate goal to establish North Macedonia as a well-recognized brand for specialized, high quality outsourcing services and software products.

- Sustainability – to constantly enhance its financial and organizational operations and establish MASIT as recognized and professional organization through innovative, effective and efficient management and leadership in order to boost the fulfillment of its vision and mission.

References and Capacities of MASIT

MASIT has strong experience on project execution. MASIT constantly works on numerous projects that have impact on their development, and strongly helps the prosperity of the national economy. Most of these projects are funded by different donors.

MASIT has strong impact on the Macedonian legislative and taxation framework that is very important factor for the growth of the domestic companies. MASIT has different initiatives regarding the increase of the ICT workforce pool and leads re-qualification programs with leading non-formal training providers in the country. MASIT organizes bilateral and multilateral events for its members and tries to match them with relevant partners from the region and whole world. In this sense MASIT organizes B2B missions on target markets and supports its members to be present of several ICT worldwide known exhibition events such as Mobile World Congress, ANGA Com, IBC, Innotech Summit, WebSummit and many more.

MASIT is active member since 2005 in WITSA - the World IT Services Alliance organization (https://witsa.org/).

MASIT is the founder of the 3B ICT Network (https://3b-ict.net/) where 16 ICT business support organizations from Balkan, Baltic and Black sea region are building a program for the future of the ICT community of this region.

ABOUT SEENEWS

SeeNews is an independent provider of business news and market intelligence for Southeast Europe. As a one-stop-shop with over 15 years of expertise SeeNews gives a 360-degree perspective on Southeast Europe, helping the customers to make informed business decisions. SeeNews provides market moving news and analyses for business, finance and industry professionals. The news stories keep the customers ahead of the curve, while the market research and company intelligence give actionable insights. SeeNews delivers bespoke market research, focused on emerging markets around the globe.

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EXECUTIVE SUMMARY

- In 2018, North Macedonia's outsourcing industry contributed 2.1% to the country's real GDP, or EUR 150.3 mln. The industry is growing substantially faster than the national economy and by 2022 it will become a major contributor to the national economy as its turnover is expected to nearly double to EUR 288.1 mln.
- The outsourcing industry is adding about EUR 1.8 mln, or 0.8%, annually to the total sum of corporate taxes paid in the country. The industry's role as a tax payer will grow in the period 2019-2022 and the forecast is it will add EUR 3.6 mln in corporate taxes by the end of the period. The outsourcing providers spend on average 1.2% of their operating revenue on corporate taxes.
- Outsourcing companies continued to raise salary, personal income tax and social contribution expenses in 2018 with the total sum reaching EUR 75.4 mln compared to EUR 28.7 mln just five years earlier. The ITO sector is the main spender, accounting for 68.0% of the total sum. The outsourcing companies are expected to keep raising their employment costs with the total sum reaching close to EUR 200.0 mln by 2022. Outsourcing accounted for 2.9% of the aggregate labour expenses in the economy in 2018, up from 2.5% in 2017 and 1.8% in 2016.
- The contribution of outsourcing to the personal income taxes paid in the Macedonian economy continued to rise in 2018 and stood at EUR 4.9 mln, up from EUR 3.8 mln in the previous year. Its share expanded to 1.7% from 1.5% in 2017 and 1.1% in 2016.
- Labour costs per outsourcing company jumped by 25.9% y/y in 2018, slowing down from 35.6% in 2017. HRO was the segment with the highest annual labour costs per company, amounting to EUR 987,505 or double the industry's average of EUR 474,153.
- The outsourcing industry employed 5,713 full-time employees (FTEs) in 2018 or 1,174 more than in 2017. By 2022, the number of FTEs in outsourcing is expected to exceed 15,000. ITO continued to boast the majority of the employment in the industry, accounting for 53.0% of the total FTEs in 2018.
- The industry is dominated by ITO with the latter accounting for 63.1% of the total number of companies on the Macedonian outsourcing market. VBPO is the key segment of the BPO sector boasting 60.9% of the sector's total number of companies.
- In terms of operating revenue, ITO's dominance was even stronger, slicing a 71.6% share of the outsourcing industry's total in 2018. However, BPO is gathering pace, reporting annual growth of 38.9% in 2018, or triple the ITO rise.

- In 2018, the annual growth of the industry's operating revenue was more than double the increase in the previous year, at 18.5%. Forecasts based on the compound annual growth rate in the period 2014-2018, show a persistent rise in company numbers and aggregate revenue by 2022.

- Outsourcing continued to be a profitable industry – its 2018 net profit totalled EUR 13.2 mln, growing by 4.6% y/y. The positive result was driven mainly by the ITO sector, which accounted for 74.4% or EUR 9.8 mln of the total net profit. BPO's net profit added the remaining EUR 3.4 mln but unlike ITO, it declined annually, by 8.4%.
- The high level of language skills among the workforce of North Macedonia is one of the country's major competitive advantages over its regional competitors. The share of population aged 25-34 speaking at least one foreign language in North Macedonia was 40.0%, above the EU-average of 38.7% as of 2016, according to the latest Eurostat data. The country is also among the best three SEE countries in terms of population aged 25-34 and speaking two languages.
- The great majority of the Macedonian outsourcing providers are serving domestic customers, reflecting the industry's initial development stage. ITO vendors dominate among the internationally oriented outsourcing companies with the main foreign markets being the USA and Germany, as well as countries with significant Macedonian diaspora – Sweden, Albania, and Australia, and other SEE countries, such as Serbia, Turkey, and Bulgaria.
- Along with the global competitiveness of the Macedonian IT talent, the country's outsourcing market shows untapped potential, especially in the VBPO field and to a lesser extent in shared service centres.
- The narrow specialisation of the local outsourcing providers in European and North American markets is reflected in the foreign languages used by the companies. English is reported as required by 91.7% of all companies using foreign languages in their activity. German, French and Italian are the other most used languages. Dutch, Spanish and languages of other SEE countries are also among the foreign languages used in Macedonian outsourcing companies. As a whole, one in every three outsourcing providers in North Macedonia has a foreign language as its official working language.

Similarly to other SEE outsourcing destinations, the heart of the outsourcing industry in North Macedonia is the capital city of Skopje. More than 80% of the local outsourcing providers are headquartered there and they generated 90.8% of the industry's total operating revenue in 2018. Skopje also accommodates 40 of the 44 outsourcing companies with foreign owners. The other towns starting to attract the interest of foreign enterprises in the field of outsourcing are Bitola, Tetovo, Prilep, and Strumica.

1. OUTSOURCING DESTINATION NORTH MACEDONIA

1.1. KEY FACTS AND MACROECONOMIC OVERVIEW

Fig. 1
North Macedonia – Country Factsheet

Country	Capital	Other major cities
North Macedonia	**Skopje**	**Bitola, Kumanovo, Prilep, Tetovo**
Currency	Population	Government
Macedonian Denar (MKD)	**2,085,051 (2018)**	**Parliamentary Republic**
Memberships	Area	VAT
World Trade Organization (WTO), CEFTA, United Nations (UN)	**25,713 sq km**	**18%/ 5%/ 0%**

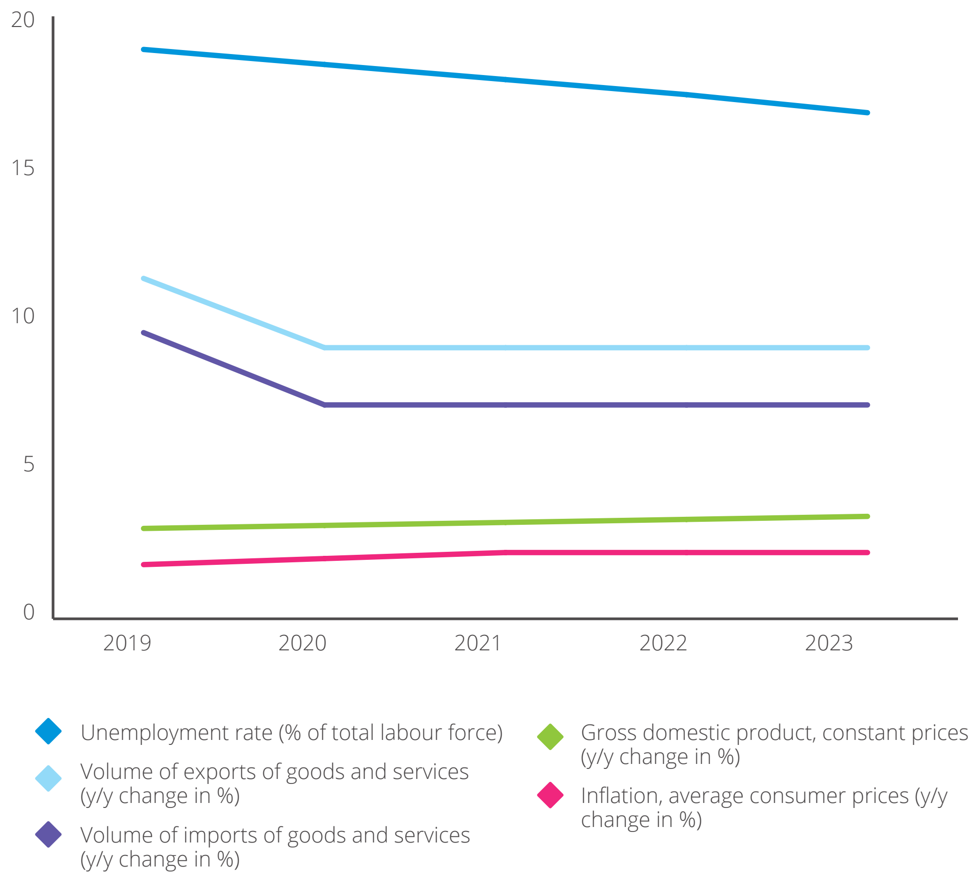
Fig. 2

North Macedonia – Macroeconomic Snapshot 2018

GDP (constant prices)	GDP real growth	Annual inflation	Unemployment rate	Youth unemployment rate
EUR 7.3 bln	**2.7% y/y**	**0.6%**	**20.7%**	**45.4%**
Average net monthly wage	Labour force	Exports	Gross external debt	Net FDI inflow
EUR 395	**957,600 people**	**EUR 4.9 bln**	**EUR 7.9 bln**	**EUR 0.6 bln**

Fig. 3

North Macedonia Economy Forecast



Source: International Monetary Fund - World Economic Outlook Database - April 2019 netcetera

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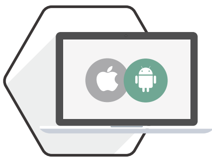
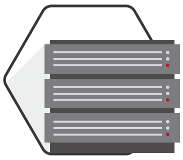
Smooth and reliable 3DS solutions for your customers when shopping online, supporting 3DS 2.0 and 1.0 protocol:

Access Control Server (ACS)



3DS SDK for Android and iOS



3DS Server

3DS MPI

Convenience and security in e-commerce:

Cloud Payment

Secure Checkout

Mobile Wallet

Merchant tokenization

80%
of the Swiss, German and Austrian banks use Netcetera's solutions

30+ mil.
Cards are protected by Netcetera's 3DS at
5.000
banking institutions

60+ thousands
worldwide merchants use Netcetera's products

220+
Banks use the Netcetera mobile wallet solutions

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in Europe & Second in the world adopter of 3D-Secure 2.0 protocol

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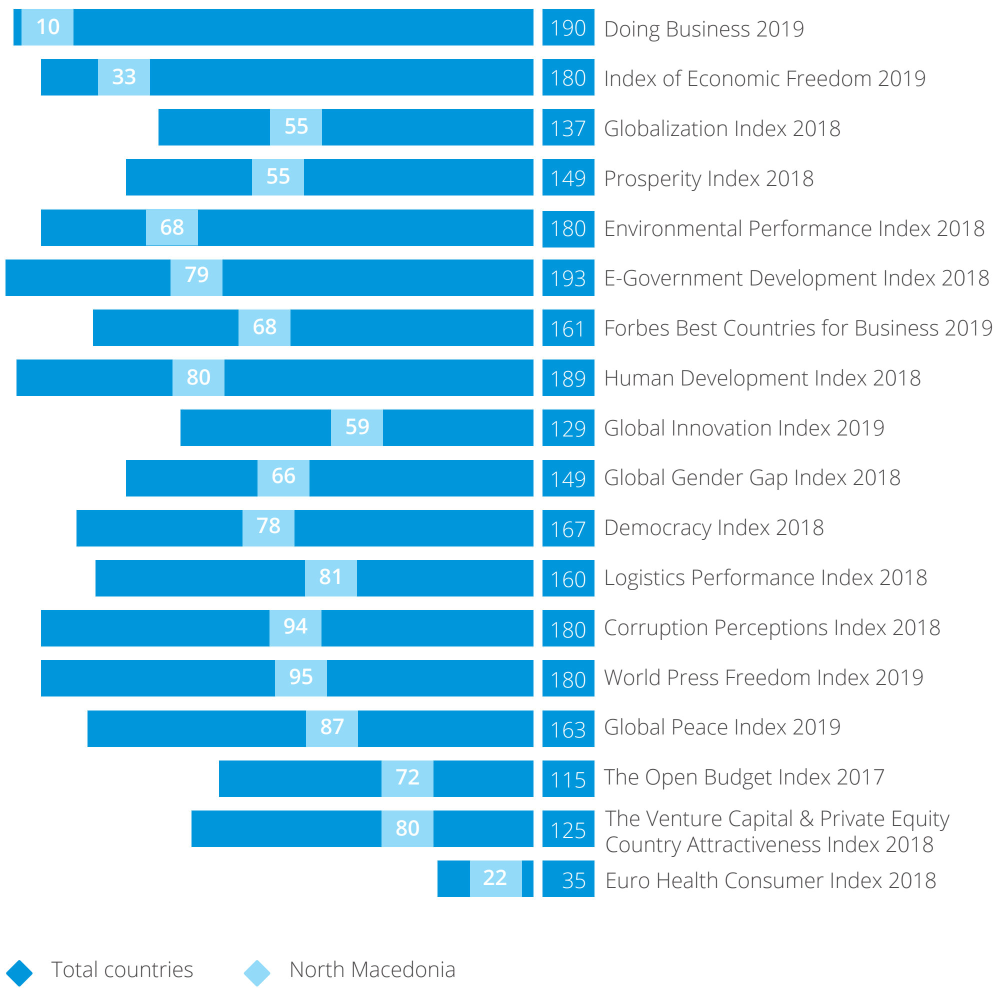
1.2. NORTH MACEDONIA IN GLOBAL RANKINGS

Fig. 4

North Macedonia in global rankings



In World Bank's report Doing Business 2019, North Macedonia ranks 10th among 190 economies and leaves all other SEE countries far behind. It performs best in the areas of Protecting Minority Investors, Getting Credit and Dealing with Construction Permits. However, areas such as Registering Property, Starting a Business and Getting Electricity are still comparatively weak.

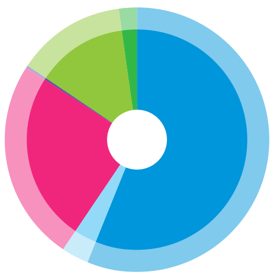
1.3. TOP OUTSOURCING LOCATIONS - CITY PROFILES

Fig. 5

Skopje

Number of sourcing companies 155

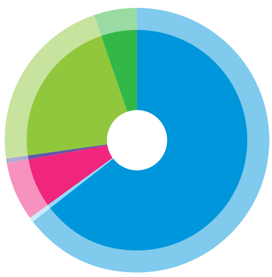
Share of national sourcing employment 84.6%



Headcount of Skopje-headquartered companies:

4 834

56.30%	ITO	0.20%	SSC
3.30%	FAO	13.40%	VBPO
24.80%	HRO	2.00%	Other BPO

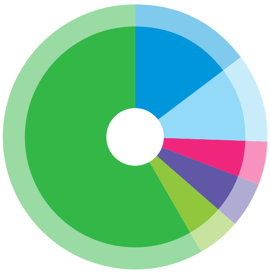


Skopje-headquartered companies structure

64.5%	ITO	0.60%	SSC
0.60%	FAO	21.90%	VBPO
7.10%	HRO	5.20%	Other BPO

Other locations of Skopje-headquartered companies (at ITO/BPO level) – by domestic city and international

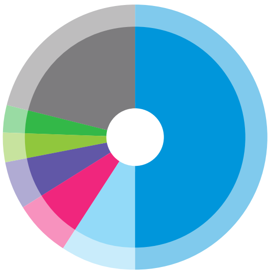
BPO	ITO				
International locations:	**Domestic:**	**International locations:**			
Tblisi	Bitola	New York	Vevey	Muscat	Blois
	Ohrid	Auburn	Hamburg	Tirana	Pristina
	Kocani	London	Sofia	Zagreb	
		Amsterdam	Moscow	Stockholm	



Main foreign markets of Skopje-headquartered companies

32 Total number of foreign markets

14.90% USA
10.80% Germany
5.40% Serbia
5.40% Sweden
5.40% UK
58.10% Other



Top 3 most popular languages – share in number of companies*

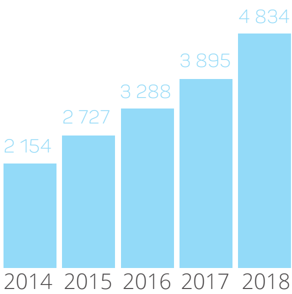
50.00% English
9.30% German
7.00% French
5.80% Italian
3.50% Albanian
3.50% Serbian
20.90% Other

Companies for which data for foreign language used is available

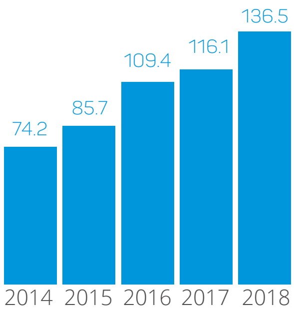
45 Number of specialized schools

Number, headcount and turnover of Skopje-headquartered companies in 2014-2018

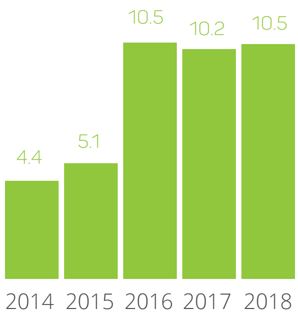
Headcount



Operating revenue (EUR mln)



Net profit/loss (EUR mln)



Total area of the region (2018)	**1 818 sq km**	Graduated students (2018)	**7 170**
Population of the region (2018)	**630 900**	Graduated students in majors suitable for outsourcing (2018)	**1 556**
Population of the region aged 20-34 (2018)	**127 000**	Number of universities (2018)	**13**
Natality rate (2018)	**12.7 per 1 000**	Top 3 Salaries (EUR)	**Python Programmer – 1 081** **IT Project Manager – 1 027** **Software Engineer – 1 000**
Mortality rate (2018)	**8.9 per 1 000**		

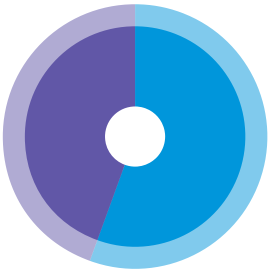
Fig. 6

Bitola

Number of sourcing companies 5

Share of national sourcing employment 6.5%

Headcount of Bitola-headquartered companies:

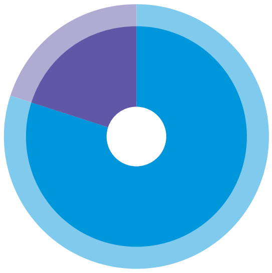


374

55.30%
ITO

44.70%
BPO (SSC)

Bitola-headquartered companies structure



80.00%
ITO

20.00%
BPO (SSC)

8 Number of specialized schools

Most popular foreign language – English

Other locations of Skopje-headquartered companies (at ITO/BPO level) – by domestic city and international

Other locations of Bitola-eadquartered companies	Companies headquartered in other locations with offices in Bitola
Prilep Skopje	Skopje

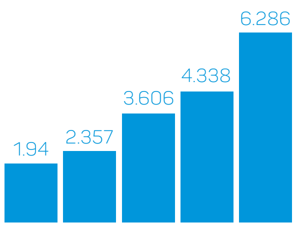
Main foreign markets of Bitola-headquartered companies

USA, Australia, Canada, Netherlands, Denmark, Ukraine, Turkey, Israel

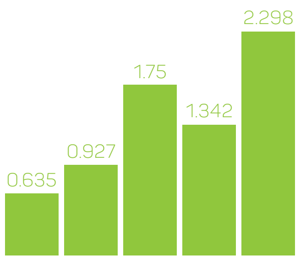
Number, headcount and turnover of Bitola-headquartered companies in 2014-2018

Headcount

Operating revenue (EUR mln)



Net profit/loss (EUR mln)



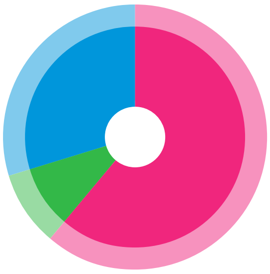
Total area of the region (2018)	**4 719 sq km**	Graduated students (2018)	**2 350**
Population of the region (2018)	**228 000**	Graduated students in majors suitable for outsourcing (2018)	**102**
Population of the region aged 20-34 (2018)	**46 300**	Number of universities (2018)	**1**
Natality rate (2018)	**8.6 per 1 000**	Top 3 Salaries (EUR)	**Python Programmer – 1 019** **IT Project Manager – 964** **Software Engineer – 937**
Mortality rate (2018)	**12.8 per 1 000**		

Fig. 7

Tetovo

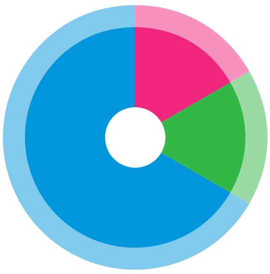
Number of sourcing companies 6

Share of national sourcing employment 1.9%



Headcount of Tetovo-headquartered companies: 111

29.70% ITO
9.00% Other BPO
61.30% HRO



Tetovo-headquartered companies structure

66.70% ITO
16.70% Other BPO
16.70% HRO

7 Number of specialized schools

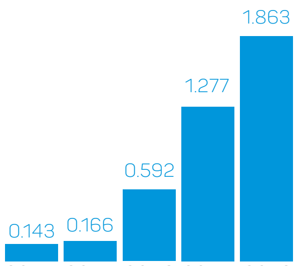
Most popular foreign language – English

Main foreign markets of Tetovo-headquartered companies	USA Finland

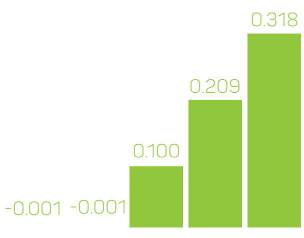
Number, headcount and turnover of Tetovo-headquartered companies in 2014-2018

Headcount

Operating revenue (EUR mln)



Net profit/loss (EUR mln)



Total area of the region (2018)	**2 479 sq km**	Graduated students (2018)	**3 430**
Population of the region (2018)	**322 000**	Graduated students in majors suitable for outsourcing (2018)	**554**
Population of the region aged 20-34 (2018)	**84 500**	Number of universities (2018)	**2**
Natality rate (2018)	**9.9 per 1 000**	Top 3 Salaries (EUR)	**Python Programmer – 1 153** **IT Project Manager – 1 098** **Software Engineer – 1 071**
Mortality rate (2018)	**7.3 per 1 000**		

2. MARKET DRIVERS

2.1. LABOUR SKILLS AND TALENT POOL

2.1.1. TALENT POOL

In the 2017 edition of the Global Human Capital Report by the World Economic Forum, North Macedonia ranked 67th in the world and was among the two bottom-ranked countries in SEE, together with Albania. Its main disadvantage was the high unemployment rate across all age groups. According to global consultant KPMG, North Macedonia's labour force is highly skilled and well educated, but the very low wages is what makes investment in labour intensive businesses more effective and preferred by investors.

North Macedonia's total workforce stood at 957,623 people at the end of 2018, an increase of 0.4% compared to the previous year. Out of them, 127,180 were aged 20-34 and based in the most developed city of the country's outsourcing industry - Skopje. The young population decreased faster in smaller cities, with the exception of Tetovo and Kumanovo, partially due to migration to the capital or abroad. Approximately 80% of the population at working age has secondary or higher education. University graduates have activity rate of more than 85%, or nearly three times higher than those with primary and lower secondary education.

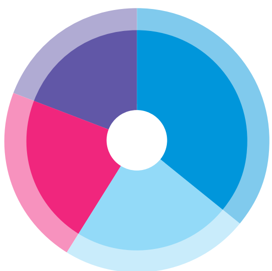
Youth unemployment remains a serious issue. As of 2018 the rate stood at 45.4% and was still very high despite the gradual improvement. Furthermore, the gap between the best performing region (Southeast) and the weakest one (Northeast) remained significant at 25%.

North Macedonia's labour market, although standing in front of major challenges, shows improvement in most areas. In terms of equal opportunities for access to the labour market, the country performs worse than the EU average, but improves in income distribution, share of early leavers from education and risk of poverty and social exclusion. Employment also grows, together with sinking unemployment rates, but the hardest challenge remains the inadequate and still deteriorating level of digital skills.

North Macedonia has a well-developed educational system. It spans a wide network of more than 80 high schools with intensive focus on languages, mathematics and science as well as 22 universities which are located across five cities. Out of them, 14 offer majors related to the outsourcing industry. In 2018 more than 1,300 Macedonian students graduated in foreign languages, computer science, software development and mathematics, while another 1,800 graduated in economics and business administration.

Fig. 8

Students enrolled in under-graduate studies in universities in 2017/2018 academic year in majors suitable for outsourcing

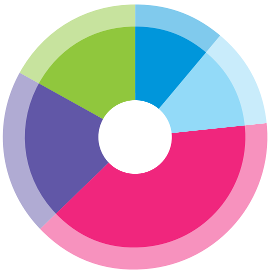


8 021	Mathematics and informatics
5 070	Business and management
4 884	Economics
4 250	Language studies
56 941	Students (total)

Source: State Statistical Office

Fig. 9

Students graduated from universities in 2017/2018 academic year in majors suitable for outsourcing



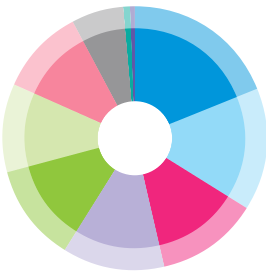
352	Natural Sciences and Mathematics
383	IT and Computer Science
1 245	Economics
632	Philology and Foreign Languages
529	Business Administration

Nearly half of the students enrolled in language majors in 2018, or 2,092 students, studied English. German came second with 646 students, followed by Albanian with 438, Turkish with 254, Italian, French, Russian and Spanish.

In terms of presence of universities in international rankings, North Macedonia still lags behind the SEE leaders Slovenia, Croatia and Romania. No local higher education institution is included in the most prestigious rankings featuring up to 1,000 universities. The only ranking featuring Macedonian universities is the Webometrics database, which covers 26,000 institutions globally. North Macedonia is one of the three SEE countries, along with Montenegro and Bosnia and Herzegovina, without a representative in the Top 1,000. Two thirds of the country's universities land in the lower half of the global ranking.

Fig. 10

Students as a share of the total population by SEE country in 2018 (%)



4.9%	Albania	2.7%	**North Macedonia**
3.9%	Croatia	1.7%	Moldova
3.2%	Bulgaria	0.2%	Serbia
3.2%	Slovenia	0.1%	Kosovo
3.1%	Montenegro	N/A	Romania
2.8%	Bosnia and Herzegovina		

Sources: National statistical offices

North Macedonia was in the middle group among the SEE countries, as far as the share of students in the total national population in 2018 is concerned. With 2.7% of its total population enrolled in undergraduate studies, North Macedonia ranked above Moldova, Serbia and Kosovo and was only a notch behind the rest of SEE, with the exception of Albania and Croatia, which reported significantly higher figures.

According to Eurostat data, North Macedonia had one of the lowest numbers in Europe of graduates in majors related to Science, Technology, Engineering and Mathematics (STEM) - 7.6 per 1,000 people aged 20-29 in 2017, which was more than twice lower than in Bulgaria, Romania, Serbia and Croatia.

In 2018 the labour force educated or employed in science and technology had a share of 20.7% of the country's total population, up from 17.9% in 2014. Still, this was among the lowest figures in Europe and in SEE, only slightly better than the least economically developed regions in Eastern Romania and Southern Serbia.

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Eurostat data shows that in 2017 there were 2,900 foreign students enrolled in North Macedonian universities. More than 20% of them were in majors suitable for the outsourcing industry. Approximately two thirds of the foreign students in North Macedonia came from Turkey and Serbia, according to UNESCO Institute of Statistics. Albania and Montenegro followed far behind, while 12 other nations sent less than 20 students in the country.

More than 5,000 Macedonian students were enrolled in universities in 36 countries worldwide. The most preferred destination was Turkey with 770 students, followed by Slovenia, Bulgaria, Italy and Austria. There were also significant Macedonian student groups outside Europe - in the USA, Saudi Arabia and Australia.

A large proportion of young people do not have the basic skills to enter the labour market, as implied by the latest PISA test in 2015 where North Macedonia's score stood far below the OECD average. North Macedonia beats only three countries among the 70 participants worldwide in all three competencies – mathematics, science and reading, and takes the penultimate rank in SEE ahead of Kosovo.

The latest education strategy aims to develop an integrated education system focusing on outcomes in order to prepare students for global labour market needs. In 2017, education spending amounted to 12.4% of the state budget, compared to 12.1% in 2016.

Although considerably below than the EU-28 average, North Macedonia is placed in the middle of the SEE ranking of individuals' level of digital skills. More than 32% of the population claimed to have at least basic overall digital skills in 2015, which is a decrease compared with the 37% two years ago. In regional aspect North Macedonia ranked between the top performers Slovenia, Montenegro, Croatia and Serbia and the underdogs Bulgaria, Romania and Kosovo.

2.1.2. LANGUAGE SKILLS

One of the major competitive advantages of North Macedonia over its regional competitors is the high level of language skills of its workforce. According to Eurostat, in 2016 the share of population aged 25-34 speaking at least one foreign language in North Macedonia was 40.0%, slightly higher than the EU-average of 38.7% and close behind its challengers Bosnia and Herzegovina, Bulgaria, Croatia and Serbia.

In terms of population aged 25-34 and speaking two languages, North Macedonia is among the best three SEE countries with share equal to the EU average of 24.6%. In the three or more languages category, North Macedonia is also third in SEE, behind Slovenia and Croatia, with a share of 12.8%.

The above-average language skills of Macedonian youth are also reflected in the comparatively low share of 25-34 year olds who don't speak a foreign language – 22.6%, below the EU-28 average of 26.6%. Only Slovenia, Croatia and Serbia boast lower shares in SEE, while in the major regional outsourcing destinations Romania and Bulgaria almost half of the youth population does not know any foreign language. However, local experts warn that this high score is hugely due to the proximity of Macedonian to Serbian, Croatian and Bulgarian, which are understood by Macedonians and reported as foreign languages in surveys.

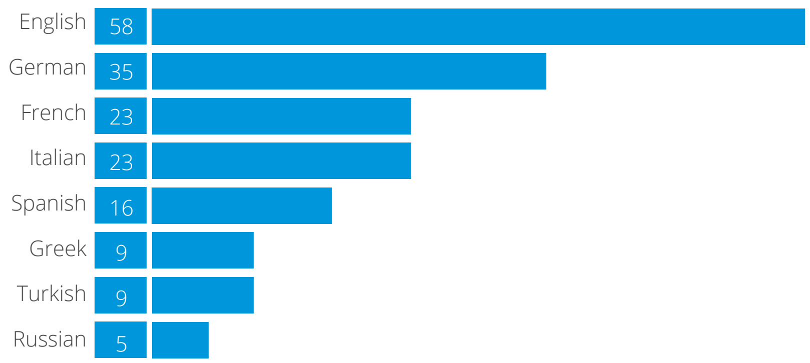
Most 25-34 year olds, or 43.9% of those who speak at least one foreign language, estimate the level of their best-known language as proficient. This value is far above the EU-28 average of 30.1% and is the second highest in SEE after Slovenia. Another 30.3% see their knowledge of the best-known language as good and 25.8%, considerably below the EU-28 average, as basic.

English is the most popular language among secondary education students in North Macedonia, with more than 99% of the students learning it. English is far ahead of the second most popular language – German with an average share of around 49%, Eurostat data shows.

In 2018 there were 132 public and 15 private secondary schools on the territory of North Macedonia. In 2017/2018 around 71,460 students were enrolled. The foreign language centers, ITC and math schools are more than 60 across the country. Skopje is the home of more than 30 public secondary schools and 15 private schools, followed by Bitola and Tetovo with seven secondary schools and Stip with six. The largest number of foreign language centres, IT and maths schools are concentrated in Skopje – 36, of which 31 with English as the main foreign language.

Fig. 11

Number of language schools by foreign language studied in 2018



The number of students in the public secondary schools studying English as a first foreign language in the school year 2018/2019 was 71,537. It was followed by German with 113 students. The most students learn as a second foreign language German – 20,511, followed by French with 17,100, and Italian comes third with 830 students. Other popular second compulsory foreign languages are Russian and Turkish.

2.2. OFFICE SPACE

The office real estate market in North Macedonia maintained stable growth in the first half of 2019. The most active participants were the local and already existing companies, mainly in the telecommunications, IT and software development sectors. Macedonian office property market continued to be concentrated almost exclusively in the capital Skopje.

According to Cushman & Wakefield/ FORTONMKA, the total supply of Class A and Class B office buildings in Skopje stood at more than 305,000 sq m as of June 2019. Practically the whole stock of modern office space has been built after 2007. More than one third of the office space, or 135,000 sq m, is in Class A buildings, while the remaining 170,000 sq m are in Class B buildings.

Vacancy rates on Skopje's office market, as far as Class A offices are concerned, continued their way down and stood at 4.0% in June 2019, in line with the growing demand for quality office space.

Rent prices in H1 2019 ranged between EUR 9.0/sq m and EUR 13/sq m for Class A office space in Skopje, reaching up to EUR 15/sq m in the Central Business Area. Class B office space rents did not exceed EUR 10/ sq m in the Central Business Area and EUR 7.0/sq m in the other city locations.

In cities outside Skopje demand and supply of modern office space are very low. The vast majority of companies operate in owner-occupied offices, most often converted retail space or apartments in residential buildings. Due to the lack of modern speculative office buildings in Bitola, Tetovo and the other Macedonian towns, the office market outside Skopje is constituted mainly of rental units in retail centres used for business purposes.

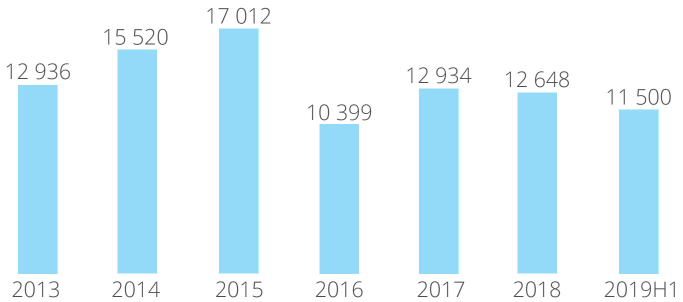
The market registered increased interest in build-to-suit projects tailored to specific requests of the tenants. New projects, expected by the end of 2019 will increase the total stock of office space with 30,000 sq m, or nearly 10%, but rents will remain close to previous year's levels. Skopje East Gate is the largest project in the pipeline with a total useful area of more than 60,000 sq m, planned to be launched in 2024.

SKOPJE KEY METRICS OFFICE MARKET

	2016	2017	2018	2019 Outlook	2019 Outlook
Take- up (sq m)	10 399	12 934	15 048	15 200	↗
Total Stock (sq m) A+B	300 060	301 260	305 160	305 160	↗
Vacancy rate (%) A+B	6.39%	2.60%	4.86%	4.02%	→
Prime rents CBD EUR/sq m/month	€13.00	€13.00	€13.00	€13.00	→
Prime rents Class B EUR/sq m/month	€9	€9	€9	€9	→
New completions annual (sq m)	6 402	1 200	1 500	12 000	↗
Prime yields (%)	9.75%	9.50%	9.25%	9.25%	↘

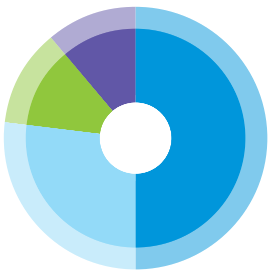
THE FUTURE TAKE- UP WILL CONTINUE TO BE DRIVEN BY FOREIGN INVESTORS FROM IT, FINANCE INDUSTRY AND OUTSOURCING SERVICE SECTOR.

Take up, 2015-2019



According to the overall market activity, Skopje's office market still stand out. **The take-up volume in the first semester alone was 11,500 sq m**

Take up split by sectors



50% Telecommunications

27% IT and Software

12% Professional

11% Other

300 sqm Average transaction size H1 2019

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RENTS AND VACANCY OFFICE MARKET

Office space	Prime locations €/Sq m	Inner city locations €/Sq m
Class A	€11 - 15	€9 - 13
Class B	€7 - 10	€5 - 7

The prime rents for **class A** offices in Skopje **prime** locations are in a range from **€11-15/sq m/month** and **€9-13sq m/month** for **inner city locations** and are subject to unit size and project quality. The rents for **class B** offices range at **€7-10/sq m/month** for prime locations and **€5-7 /sq m/month** for inner city locations.

Rents are expected to remain within the existing levels at least until the new projects are delivered on the market since none of them is pre-let.

EVOLUTION OF RENT LEVELS - **CLASS A**

List of office property in Skopje

Skopje Office Market			
Class A	**GLA**	**Class B**	**GLA**
Sectorn	1 323	Aura Corner	2 472
City Plaza	4 255	Zebra	2 000
Soravia	12 803	Manhattan	3 000
Synergy	6 067	Ve Ve	1 732
Hyperium	5 940	Intex	5 300
Grawe	2 007	Poshtenska Banka	3 206

4.02 % Vacancy rate H1 2019 class A and B

Evolution of rent levels class A

	2015	2016	2017	2018	2019H1
Prime rent CBD	14.5	15	15	15	15
Average rent class A	11	12	11.75	13	13
Yield prime locations	9.25%	9.75%	9.50%	9.25%	9.25%

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SKOPJE OFFICE MARKET

The Skopje office market is experiencing an expansionary mode in terms of development activity. The sector's promising prospects are backed by improved economic outlook and increasing tenant demand.

With annual take-up volume of around **12,000 sq m**, the office market in Skopje continues to benefit from an influx of IT and BPO firms along with traditional tenants, such as financial sector corporates.

With over **300,000 sq m** of stock, the Skopje office market offers a diversified tenancy product, considering the size of the market.

Traditional occupiers from the financial sector, IT and BPO companies, as well as ancillary service companies, have been the major drivers of the market demand.

Quality wise, almost **45%** of the available space on the market is in **class A** office buildings, most of them completed in the last 10 years.

Most anchor tenants are looking for offices on prime locations with easy accessibility to city infrastructure, for which, class A office buildings are mostly preferred. There is still shortage of high quality, class A office space, that also affects occupiers to consider relocating into a "built-to-suit" projects tailored according to their specific office needs and requirements.

The upcoming pipeline is expected to deliver around **24,000 sq m** of new class A office space in **Q3 2019**, and **4,000 sq m** of new **class B** office space in **Q3 2019**.

2,000 sq m of new class B office space in **Q4 2019**.

The future take-up and demand will continue to be driven mostly by foreign investors from the IT, financial industry and outsourcing services sectors.

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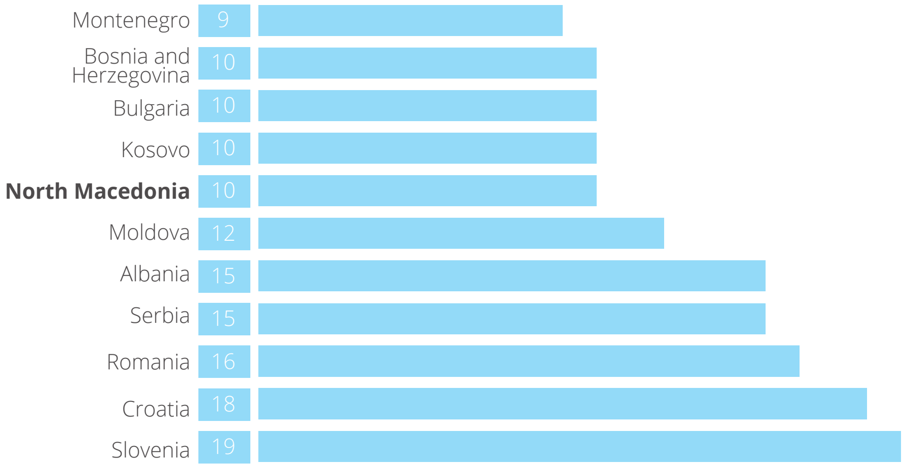
2.3. COST OF DOING BUSINESS

2.3.1. CORPORATE TAXES

Fig. 12

Corporate tax rates by country in SEE (%)



Source: Trading Economics

North Macedonia's 10% corporate tax is the second lowest in SEE behind Montenegro. Hungary, with 9.0% introduced in 2018, is the only other European country with a more favourable tax rate than North Macedonia. More than two times lower than the EU-average of 21.3% are also the competitors Kosovo, Bulgaria and Bosnia and Herzegovina with 10% and Moldova with 12%.

2.3.2. INTERNET SPEED AND CONNECTIONS

North Macedonia, unlike most SEE countries, has more advantage in mobile internet services than in fixed broadband internet speed compared to the rest of the world. The country has the 28th highest mobile internet speed in the world. However, North Macedonia is at the bottom of the regional ranking in terms of fixed internet speed, but still in the middle of the world ranking. In terms of internet costs, North Macedonia ranks 37th among 195 countries worldwide and fifth in the region.

2.3.3. STANDARD OF LIVING

According to the contributed data provider about cities and countries worldwide Numbeo, North Macedonia is among the countries with the lowest cost of living in SEE. Skopje, together with the capitals of Moldova and Kosovo, along with seven Romanian and two Serbian cities represent the cheapest cities to live in Europe.

2.3.4. SALARIES

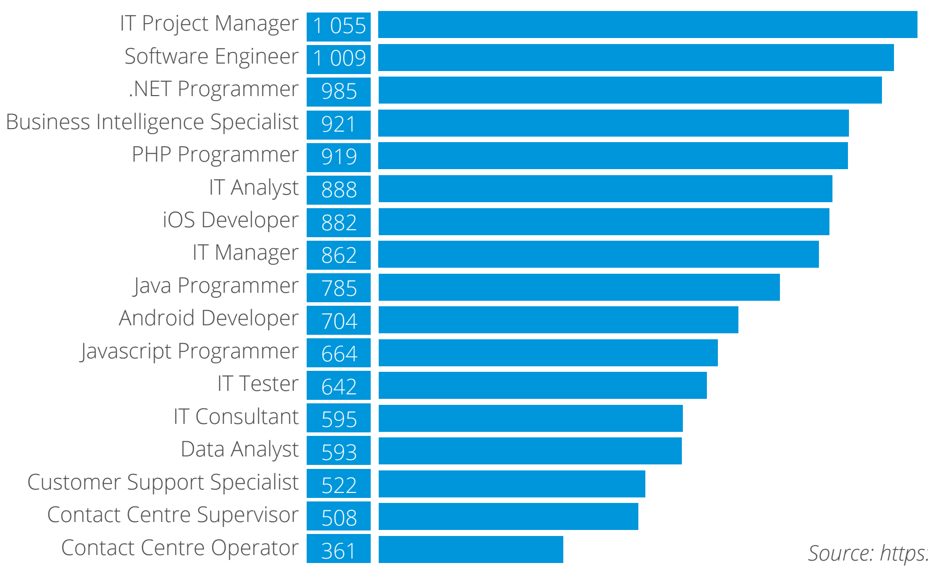
IT talent in North Macedonia is more affordable compared to the other competitors in SEE. The employees in the IT industry in SEE received around 65% above the average net salaries in 2018. In North Macedonia the gap was even larger – 82%, or EUR 717 in the IT field against EUR 395 in the economy as a whole. This salary gap is smaller than the differences in Bulgaria and Romania, but larger than anywhere else in SEE. The wages in the IT sector in North Macedonia rose by 14.9% in 2018, three times faster than the average net wages in the economy. In absolute terms, North Macedonia boasted the fifth highest IT wages in SEE behind Slovenia, Bulgaria, Romania and Croatia, and just ahead of Serbia.

Average net monthly salaries in computer programming stood at EUR 962 in 2018, more than 30% higher than the average values in the broader information and communication sector.

The other segments in the outsourcing sector were significantly worse paid – the average monthly net salary in information service activities stood at EUR 538, office and administrative support activities followed with EUR 480, while publishing activities and employment activities were at the bottom with EUR 370 and EUR 292, respectively.

Fig. 13

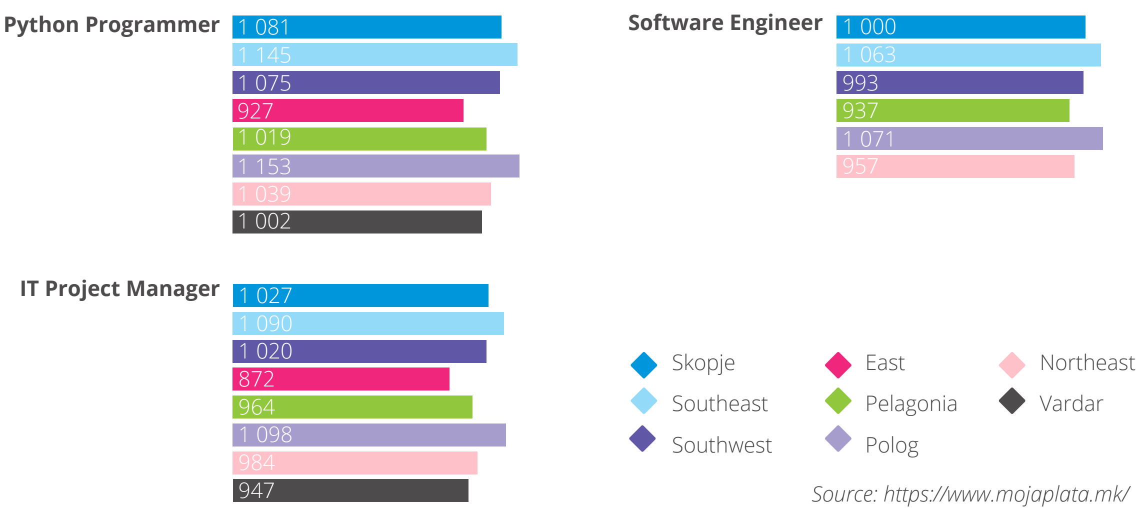
Average net monthly salaries by ITO and BPO position in June 2019 (EUR)



Source: https://www.mojaplata.mk/

Fig. 14

Average net monthly salaries by ITO and BPO position by region in June 2019 (EUR)



Source: https://www.mojaplata.mk/

3. VENDORS LANDSCAPE

3.1. FOREIGN MARKETS

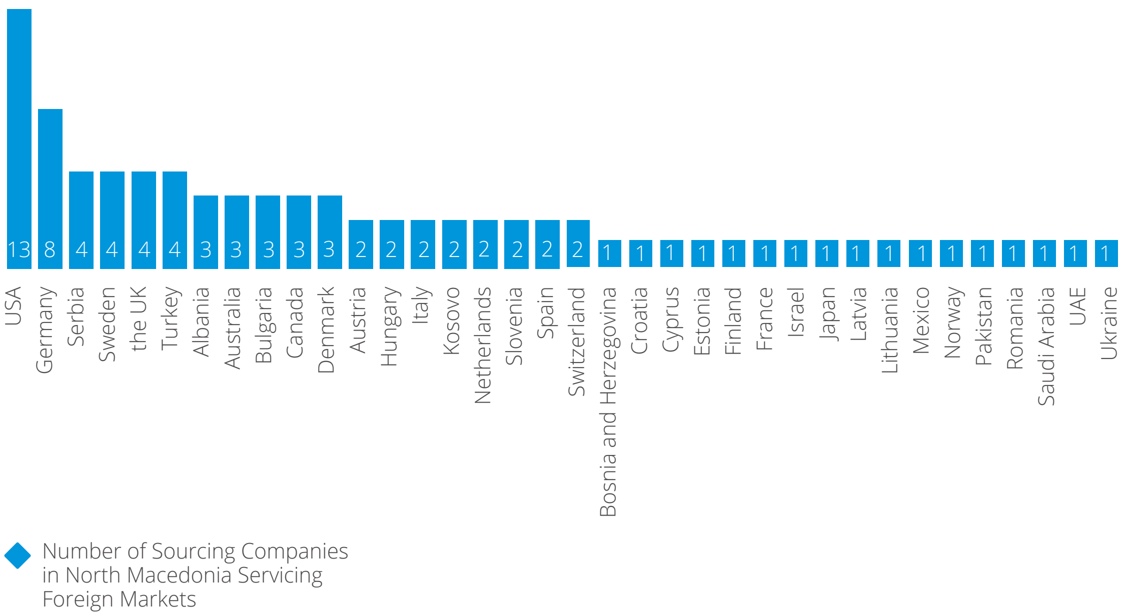
The initial degree of development of the outsourcing industry in North Macedonia is mirrored in the still low penetration of Macedonian vendors on foreign markets. The huge majority of outsourcing providers in the country are concentrated on serving domestic customers. Barely one in each seven of the 187 companies under analysis has claimed to operate internationally. The largest number of these companies is focused on serving customers in the USA – 13 companies, followed by Germany with eight companies. The other major foreign markets of the Macedonian outsourcing industry can be divided into three groups. As global leaders, companies in the UK and Canada, similarly to the USA, have intensively outsourced processes to Southeast Europe in the last decade in search of higher quality while keeping lower costs. The other group consists of countries with significant Macedonian diaspora, which facilitates the establishment of contacts – Sweden, Albania and Australia. The most dynamically growing third group encompasses the larger regional players, such as Serbia, Turkey and Bulgaria.

Sectorwise, ITO vendors prevail considerably among the internationally oriented outsourcing companies. This is evidence of the global competitiveness of the Macedonian IT talent, but also of the significant untapped potential of the country, above all in the VBPO field and to a lesser extent in shared service centres.

Overall, the Macedonian outsourcing industry is servicing customers in 37 countries in Europe, North America, Asia, Australia and the Middle East. Most ITO and BPO companies in North Macedonia see the greatest potential as export destinations in Scandinavian countries, Central and Eastern Europe, followed by the current number one choice North America. North Macedonia's companies compete with vendors from neighbouring Serbia, Albania and Kosovo, which also eye Scandinavian and regional companies as priority clients.

Fig. 15

Major foreign markets of outsourcing companies in North Macedonia



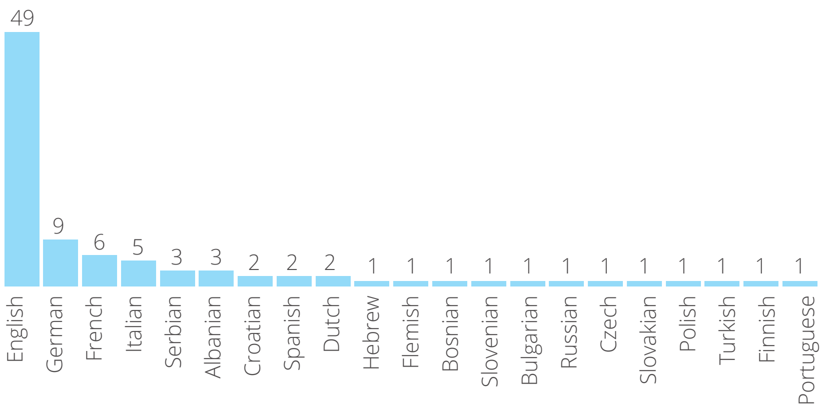
3.2. DISTRIBUTION OF COMPANIES BY FOREIGN LANGUAGES USED

In 2018, the number of foreign languages used for providing services by ITO and BPO companies in North Macedonia stood at 21. The narrow specialisation of local companies in European and North American markets can be seen in the language distribution – Hebrew was the only non-European language represented in the country's outsourcing industry. English is practically mandatory in companies with international operations, as it is required by 91.7% of all companies using foreign languages in their activity. German, French and Italian are the other most intensively used languages, followed at a considerable distance by the languages of the other SEE countries, as well as Dutch and Spanish.

One in every three outsourcing providers in North Macedonia has a foreign language as its official working language. The share of companies stating usage of foreign languages in their activities is almost equal in both sectors – 30.4% in BPO, compared with 28.0% in ITO. Only a quarter of those companies provide their services in more than one foreign language, most often in the VBPO segment. The highest number of languages used at a single company is 18.

Fig. 16

Major Languages Used in Macedonian Outsourcing Companies (number of companies)



3.3. DISTRIBUTION OF COMPANIES BY FOREIGN OWNERSHIP

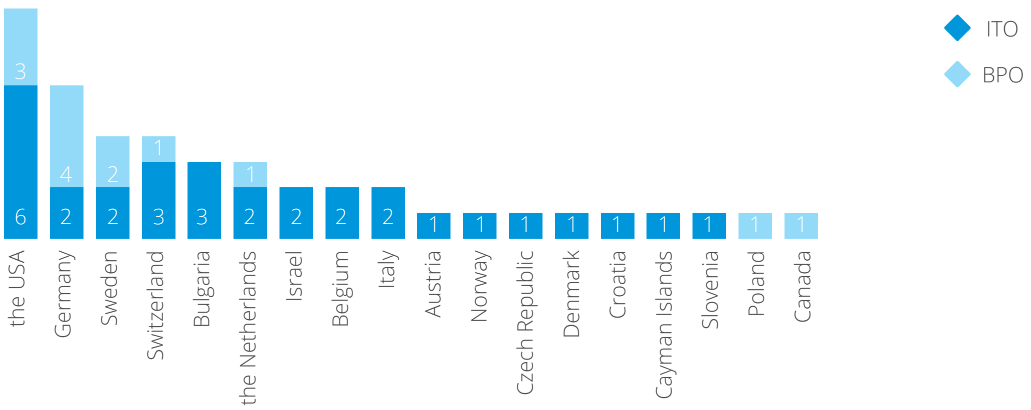
North Macedonia is home to outsourcing providers with parent companies from 19 countries. The number of local ITO and BPO companies with foreign ownership is 44, or 23.5% of the total, which reflects the predominantly domestic focus of the outsourcing industry, but also the significant potential for attracting overseas investors. Sectorwise, ITO providers are ahead of those active in BPO in terms of foreign ownership and outnumber them more than two times.

US-based investors own 20.5% of those companies, mainly in the ITO field. Germany is the second most important parent location, concentrated on the BPO sector. It is followed by Sweden, Switzerland, the Netherlands and the regional powerhouse Bulgaria, which has recognised North Macedonia as a destination for outsourcing IT operations.

International interest is geographically concentrated almost exclusively in the capital Skopje, which accommodates 40 of the 44 companies with foreign owners. The other towns starting to benefit from the increasing investment interest in outsourcing from abroad are Bitola, Tetovo, Prilep and Strumica.

Fig. 17

Distribution of companies by country of origin of the investor



4. MARKET ANALYSIS

4.1. EMPLOYMENT

Outsourcing is one of the most rapidly growing industries in North Macedonia. It has maintained double-digit employment growth rates throughout the five-year period under analysis and has developed into a highly promising industry in the structure of the national economy. According to the State Statistical Office of North Macedonia, the wider ecosystem of sectors, related to outsourcing, employed 10,200 people in 2018, up from 8,200 in the previous year. Almost half of them, or 4,700, were active in computer programming and consultancy. More than half of this figure were engaged in outsourcing operations – ITO boasted 3,029 employees or 53.0% of the overall outsourcing workforce in 2018. BPO added a further 2,684 employees to the aggregate value of the industry – 5,713 people.

Although ITO maintained its dominant position in terms of employment, it grew at a comparatively slower compound annual growth rate (CAGR) of 16.6%. BPO gathered pace and has more than tripled its headcount since 2014, when it employed 735 persons. VBPO reported the highest CAGR among all segments with 71.0% between 2014 and 2018, followed by HRO and Other BPO, all of them with figures exceeding the average CAGR of the industry.

In absolute terms, HRO reclaimed its position as the most populous BPO segment, which it had lost to VBPO in 2017. Its 1,266 employees accounted for 47.2% of the combined BPO headcount. VBPO came second with 967 persons employed in 2018, while Other BPO, which encompasses all BPO companies outside HRO and VBPO, had the least numerous overall personnel of 451 persons.

Micro and small enterprises formed the backbone of Macedonian outsourcing in 2018 – 85.5% of all companies active in the industry had fewer than 50 employees. A year earlier their share came in at 87.3%, which is a sign of gradual consolidation of the industry, although at an initial stage. On the other hand, only three outsourcing vendors belonged to the group of large firms with personnel exceeding 250 employees. This can be attributed to the entrepreneurial nature of ITO and BPO business in the country and the absence of large SSCs of global technology corporations.

Fig. 18

Number of companies by headcount and segment

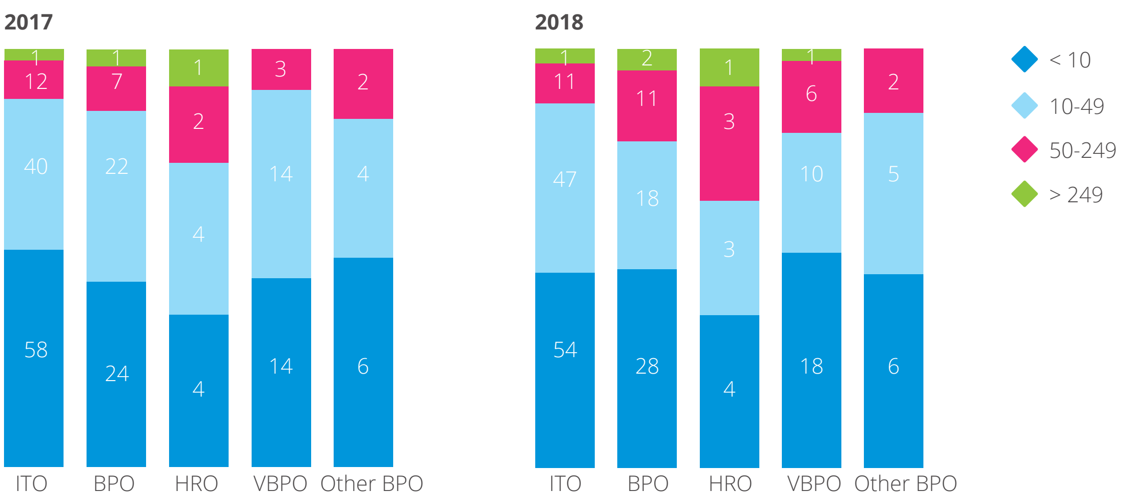
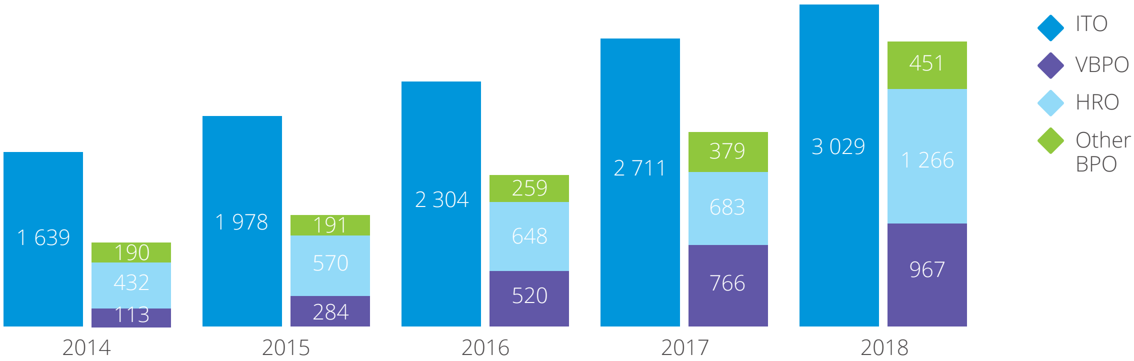


Fig. 19

Employees in outsourcing

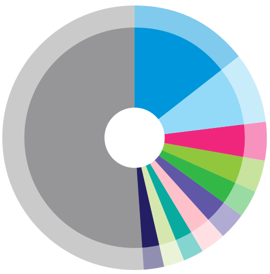


The combined share of the 10 largest employers in the headcount of outsourcing stood at 49.5% in 2018, up from 43.9% in the previous year. Nine of the ten biggest companies expanded their personnel figures y/y. Unlike the industry's structure in terms of number of companies and employees, where ITO had clear advantage, both sectors were represented by five companies each in the group of the largest outsourcing employers.

The HRO vendor Dekra Arbeit Macedonia took the top spot with headcount of 846, more than two times higher than its 2017 figure, thus leaving last year's leader, Sweden-owned ITO company Seavus DOOEL, second with 487 employees. The Debar-based contact centre My Pizza DOOEL jumped to the third position, following its rapid expansion to 281 employees. The ITO providers Endava DOOEL and Netcetera Skopje DOOEL followed as the only two other outsourcing companies in North Macedonia with headcount exceeding 200.

Fig. 20

Top 10 Outsourcing Companies by Number of Employees in 2018



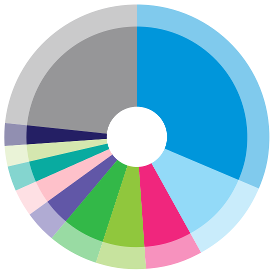
846	Dekra Arbeit Macedonia	167	Taskforce BPO
487	Seavus	159	Asseco
281	My Pizza	143	Musala Soft Skopje
220	Endava	135	Allocate Software Skopje
201	Netcetera Skopje	2 948	Other Companies
189	Executive Search Leasing Skopje		

4.1.1. HEADCOUNT OF BPO COMPANIES

BPO companies employed 47.0% of the total outsourcing workforce in North Macedonia in 2018, up from 40.3% in the previous year. The two largest segments, HRO and VBPO, occupied eight spots in the Top 10 employment ranking in the BPO sector, each of them represented by four companies. The other two were the rapidly growing shared service centre Taskforce BPO DOO and the financial outsourcing company Asseco DOOEL, both classified as Other BPO.

Fig. 21

Top 10 BPO Companies by Number of Employees in 2018



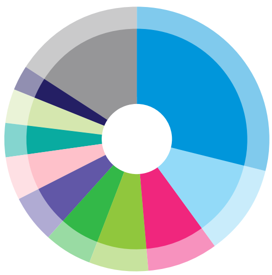
846	Dekra Arbeit Macedonia
281	My Pizza
189	Executive Search Leasing Skopje
167	Taskforce BPO
159	Asseco
108	CMH Solutions Skopje
87	Inscale Macedonia
82	Euro Answer Skopje
71	InPlayer Hub
68	Coordea Outsourcing
626	Other Companies

VBPO was the third largest employer in the outsourcing industry, accounting for 16.9% of the total number of outsourcing employees in 2018. The segment's employees were constantly rising in the period 2015-2018 but the growth slowed down to 26.2% in 2018 from 47.3% in 2017. However, at 77% the average annual increase in the period under review was impressive.

In 2018, the top 10 companies by number of employees in VBPO accounted for 81.2% of the segment's total employment. The ten leaders had 235 more employees in 2018 than in 2017, thus being the main contributors to the sector's employment growth.

Fig. 22

10 VBPO Companies by Number of Employees in 2018

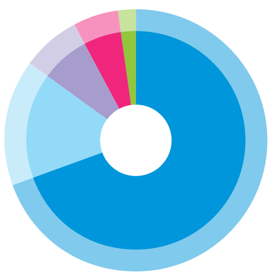


281	My Pizza
108	CMH Solutions Skopje
82	Euro Answer Skopje
71	InPlayer Hub
57	Data Solutions Group
55	Compass Management International
51	Outsource Consulting Services
41	SXM Management
39	Monet Technology Service
29	OneContact
153	Other Companies

HRO companies employed nearly twice as many people in 2018 as in 2017, thus emerging as the leader in annual growth terms among the outsourcing sectors and segments. However, the uptrend was fuelled mainly by one company - Dekra Arbeit Macedonia, which more than doubled its staff to 846 from 334 in 2017.

Fig. 23

Top 5 HRO Companies by Number of Employees in 2018



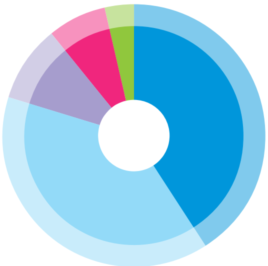
846	Dekra Arbeit Macedonia
189	Executive Search Leasing Skopje
87	Inscale Macedonia
68	Coordea Outsourcing
26	MGR Management International Skopje

The companies that are not specialised in any specific outsourcing field employed 451 people in 2018, or 72 more than in 2017. The average annual growth of the employment of these companies stood at 25.4% in the period 2015-2018.

The major employers in the segment are Taskforce BPO DOO and Asseco DOOEL with their combined employees accounting for 72.3% of the segment's total. In 2018, the two companies employed a total of 17.3% more people than a year earlier.

Fig. 24

Top 5 Other BPO Companies by Number of Employees in 2018



167	Taskforce BPO
159	Asseco
38	German Drawings
30	Prospertop
14	Accent Prevod i Tolkuvanje

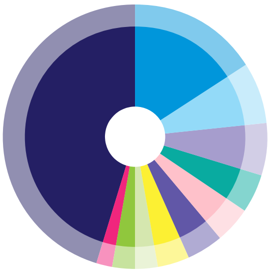
4.1.2. HEADCOUNT OF ITO COMPANIES

In 2018, ITO continued to be the major employer on the Macedonian outsourcing market. ITO's employees numbered 3,029 and accounted for more than half of the industry's total. The ITO companies were constantly increasing their staff numbers in the period 2015-2018. The average annual growth rate for the period was 16.6% with the 2018 annual rise being below the average, at 11.7%.

The 10 leading ITO employers accounted for more than half of the total number of employees in the sector. The leaders employed 232 more people in 2018 than a year earlier with Endava DOOEL being a major contributor with an annual increase in the number of employees of 35.0%. The companies outside the top 10 list also raised their headcount, by 6.7% to 1,370 people.

Fig. 25

Top 10 ITO Companies by Number of Employees in 2018



487	Seavus
220	Endava
201	Netcetera Skopje
143	Musala Soft Skopje
135	Allocate Software Skopje
130	Interworks
120	Matrix IT GSMS
82	Symphony Solutions
81	Cosmic Development
60	ITgma Skopje
1 370	Other Companies

4.2. MARKET SIZE

4.2.1. OPERATING REVENUE

North Macedonia's outsourcing industry enjoyed sharp growth in the period 2015-2018, reaching EUR 150.3 mln in operating revenue in 2018. The operating revenue grew annually by an average of 17.9% in the period under review. In 2018, the annual jump was 18.5%, the second-highest growth rate in the period after the 27.8% y/y rise in 2016. The growth in 2018 was fuelled by both of the industry's sectors – ITO and BPO with the latter reporting an annual increase of 38.9%, its record-high expansion in the last four years. ITO's growth was smoother with the sector seeing its operating revenue going up by 12.0%. Despite its slower growth, the ITO is the main contributor to the total operating revenue of the industry – it generated more than 70% of the total sum in each of the years in the period 2014-2018.

Fig. 26

Operating Revenue and Employment in Outsourcing by Sectors

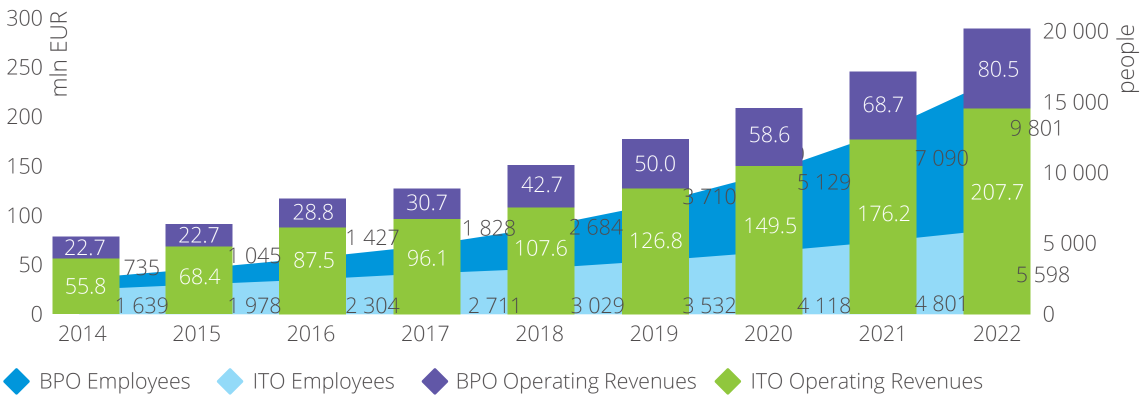


Fig. 27

Operating Revenue by Segment (EUR mln)

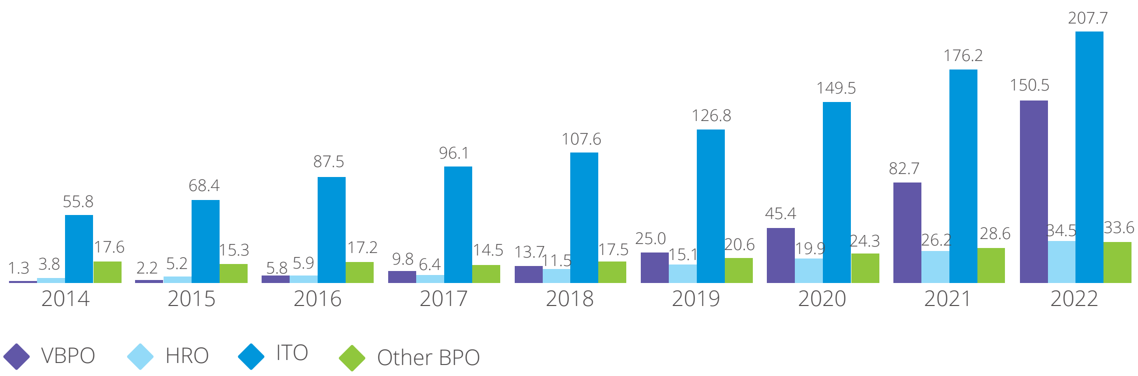
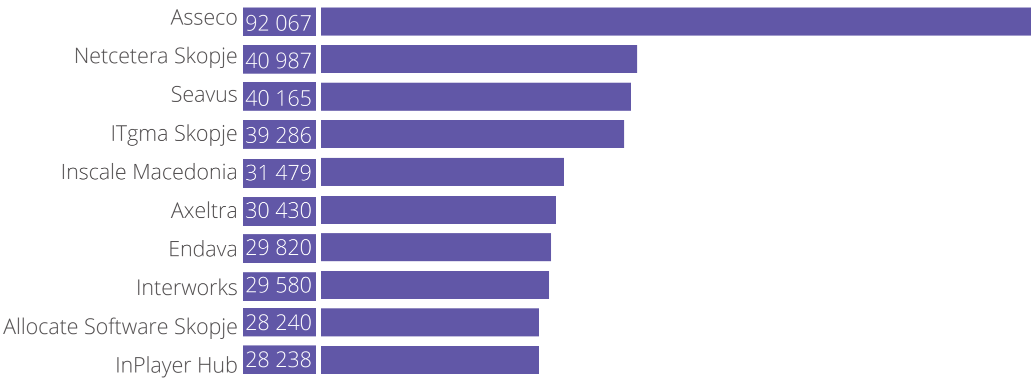


Fig. 28

Top 10 Medium-sized and Large Outsourcing Companies by Operating Revenue per FTE in 2018 (EUR)



4.2.2. ITO SECTOR OPERATING REVENUE

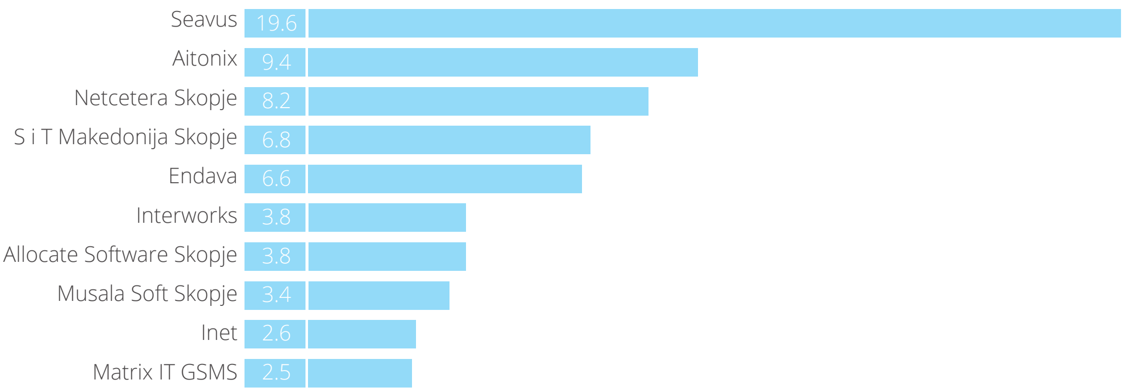
The ITO sector nearly doubled its operating revenue to EUR 107.6 mln in 2018, compared to 2014. The sector's average annual growth for the period 2015-2018 was 18.1% with the rate ranging widely - from 9.8% in 2017 to 28.0% in 2016.

In 2018, there was a sole leader among the ITO companies in terms of operating revenue. Seavus DOOEL, the local arm of the eponymous Swedish software consulting and development corporation, occupied the first position with operating revenue of EUR 19.6 mln, or more than double the result of the second in the ranking.

The combined operating revenue of the leading ten companies in the ITO sector amounted to EUR 66.8 mln, or 62.0% of the total for the sector. In comparison to 2017, the top 10 companies added EUR 8.7 mln to their result, or 14.9%.

Fig. 29

Top 10 ITO Companies by Operating Revenue (mln EUR) in 2018



4.2.3. BPO SECTOR OPERATING REVENUE

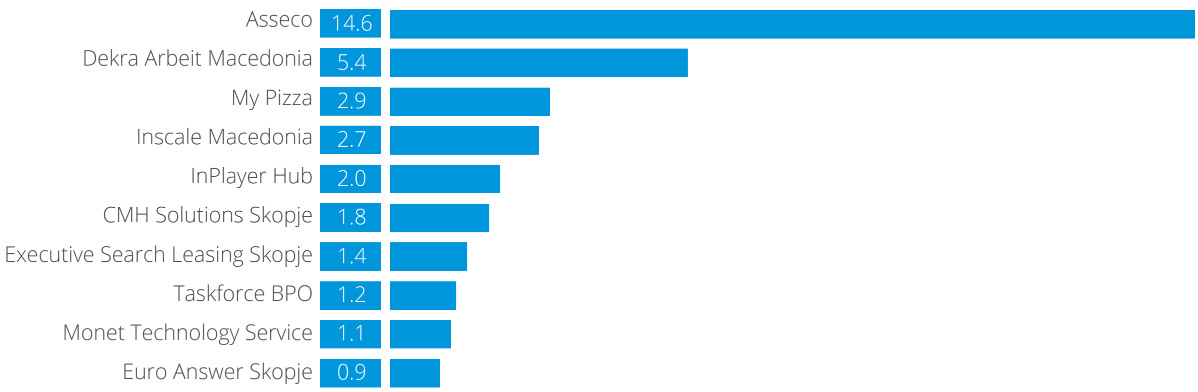
In 2018, the BPO sector reported its best year in the period 2014-2018 with operating revenue reaching EUR 42.7 mln, a 38.9% jump in comparison to 2017. The average annual growth rate of the revenue was 18.2% for the five-year period ending in 2018 and it nearly doubled in 2018 in comparison to 2014.

All of BPO's segments enjoyed a significant annual rise in their operating revenue in 2018. The leader in terms of annual growth was HRO, which saw its operating revenue going up to EUR 78.7 mln from EUR 9.5 mln in 2017. Looking at the annual average increase for the period 2015-2018, the leader was VBPO with the impressive 87.0%, with the sector's operating revenue reaching EUR 13.7 mln in 2018, while just five years earlier the sum was only EUR 1.3 mln.

The leading 10 BPO providers in terms of operating revenue are vital to the sector's development as they accounted for 79.9% of its total operating revenue in 2018. The ranking of the top 10 companies in 2018 was topped by Asseco DOOEL, the Skopje-based unit of Polish ICT solutions provider Asseco Group. The company was the sole leader among the BPO firms in each of the years in the period 2014-2018.

Fig. 30

Top 10 BPO Companies by Operating Revenue (mln EUR) in 2018



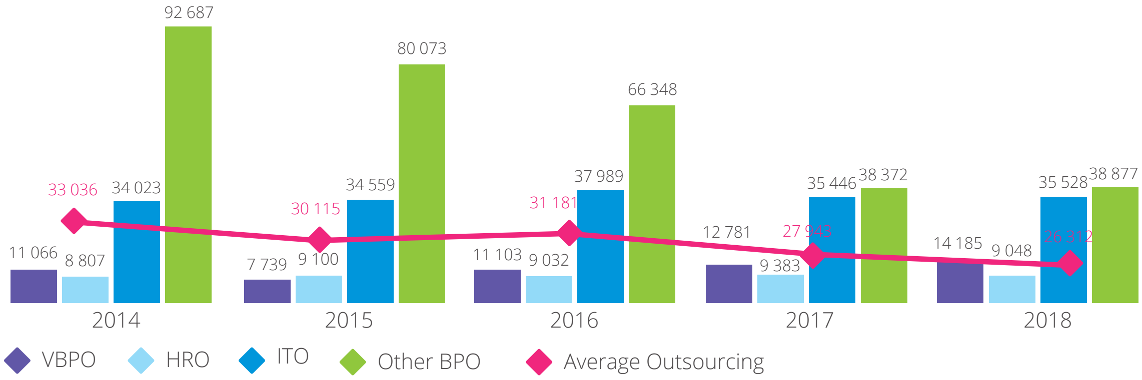
4.2.4. AVERAGE OPERATING REVENUE PER EMPLOYEE

In 2018, the growth rate in the number of employees outpaced that of operating revenue and thus the average operating revenue per employee in the outsourcing industry declined to EUR 26,312 from EUR 27,943 in 2017.

However, when looking at the BPO segments and the ITO sector the picture was mixed. The ITO and almost all of BPO's segments reported, though weak, growth. The only notable rise was reported by VBPO where the operating revenue per employee went up by 11.0% on the year in 2018. HRO was the only BPO segment to post an annual decline, of 3.6%, to EUR 9,048 per employee.

Fig. 31

Average Revenue per Employee (EUR)



4.2.5. MOST DYNAMIC COMPANIES

There is a great variety among the growth rates of the most dynamic outsourcing companies in 2018. The ITO providers showed sharper uptrend levels, while the dynamics were smoother among the BPO leaders. The top position in the ranking among the companies from both ITO and BPO was occupied by software developer Keitaro DOOEL, which managed to raise its operating revenue to EUR 832,328 in 2018 from EUR 42,861 in 2015.

The BPO ranking consists entirely of representatives from the HRO segment, which reflects its impressive development in 2018 by being the segment with the sharpest annual growth in operating revenue in the year under review. The combined operating revenues of these HRO companies hit EUR 10.5 mln in 2018, while just five years earlier the sum was only EUR 2.6 mln.

Fig. 32

Most Dynamic ITO Companies

Keitaro

Endava

IT Crowd

Elikosoft

Melon Technologies

Fig. 33

Most Dynamic BPO Companies

Inscale Macedonia

Dekra Arbeit Macedonia

Coordea Outsourcing

ESI Employment Services Skopje

Executive Search Leasing Skopje

4.3. LABOUR COSTS

The growing outsourcing market in North Macedonia is pushing up the labour costs of the outsourcing companies. Expenses for gross salaries including social security contributions were constantly growing both in value and as a share of the industry's operating revenue in the period 2014-2018. Labour costs accounted for half of the industry's operating revenue in 2018, while four years earlier its share was 36.6%. The average annual growth of the labour costs was 28.3% in the period 2015-2018. HRO's fast development in 2018 pushed up the labour costs in the segment by an annual 79.9%, which was the highest jump in labour costs among the outsourcing sectors and segments. The annual increase for the BPO sector as a whole was 50.5%, with the growth rate accelerating in every year of the period 2015-2018. ITO's annual rise in labour costs in 2018 was much smoother, at 19.0%, slowing down from the 61.9% surge reported in 2017.

Fig. 34

Labour Costs in Outsourcing by Segment (mln EUR)

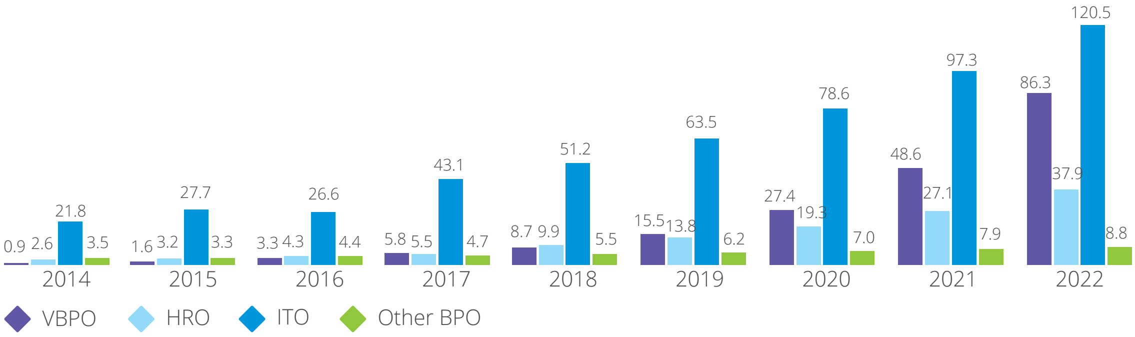
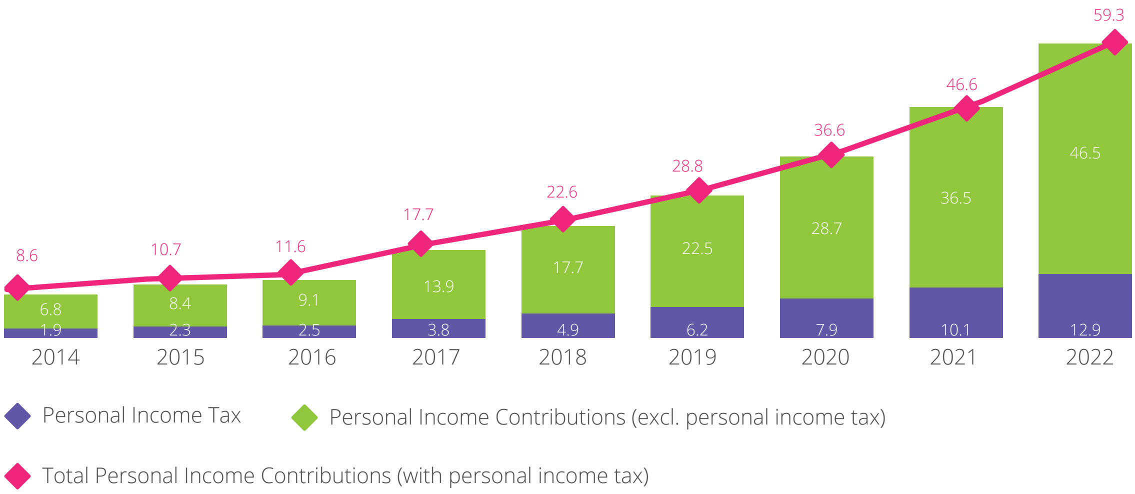


Fig. 34a

Personal Income Taxes and Contributions (mln EUR)

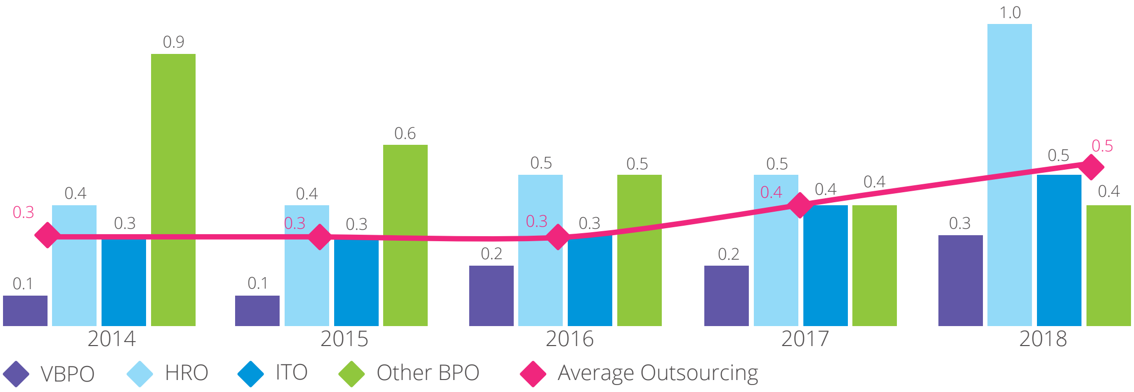


4.3.1. LABOUR COSTS PER COMPANY

The rising labour costs resulted in a per-company value of EUR 474,153 in 2018, a 25.9% annual jump. Labour costs per company grew in all of outsourcing's sectors and segments in 2018. HRO reported, as it did in terms of labour costs, the sharpest annual increase of 79.9%. All other segments reported strong growth, while ranging widely from 17.4% for the non-specialised BPO companies to 49.6% for the VBPO segment. In the period 2015-2018, there were some fluctuations in the industry's average value of labour costs per company with the average annual change amounting to 14.1%, thanks to the annual growth in 2017 and 2018.

Fig. 35

Labour Costs per Company by Segment (mln EUR)

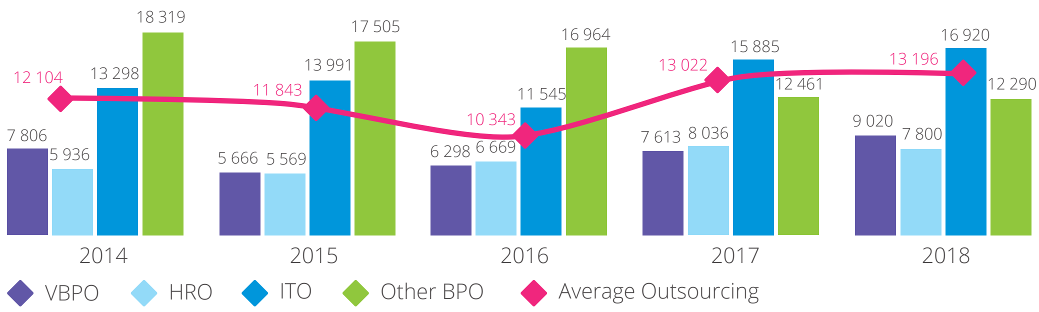


4.3.2. LABOUR COSTS PER EMPLOYEE

The labour costs per full-time employee in the outsourcing industry turned to annual growth in 2017 and 2018, from a decline in the previous two years, as a result of the sharper increase in costs than in employee numbers. The traditionally higher gross salaries in the ITO sector, compared to the BPO and national average, put the sector on top in terms of labour costs per employee. In terms of annual growth in 2018, VBPO was the leader. The sector's labour costs per employee went up by 18.5% after labour costs jumped by 49.6%, or more than double the rise in employee numbers.

Fig. 36

Labour Costs per Employee (EUR)

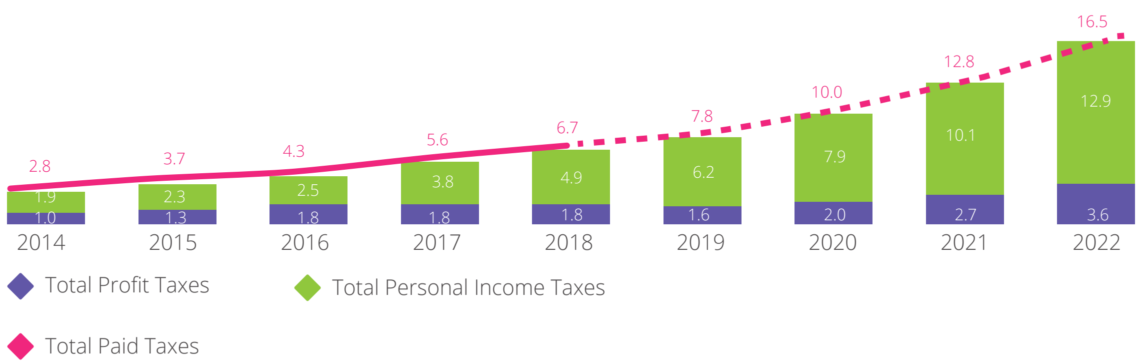


4.3.3. TAX EXPENSES

The outsourcing industry contributed on average EUR 1.5 mln in taxes to the national economy in the period 2014-2018. However, the industry's tax payments stabilised at a higher level, at EUR 1.8 mln per year in 2016, 2017 and 2018. The industry's importance to the economy will continue to grow with the tax contributions expected to reach EUR 3.6 mln by 2022.

Fig. 37

Total Taxes Paid by the Outsourcing Industry (mln EUR)

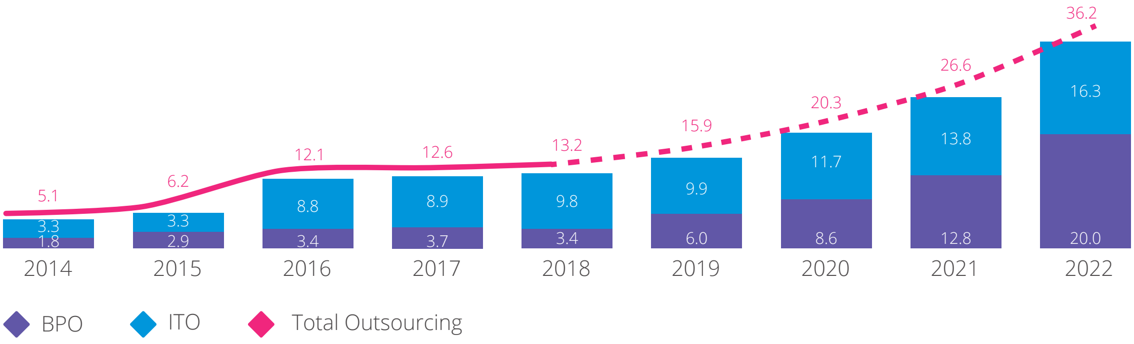


4.4. PROFIT AND PROFITABILITY

The outsourcing industry enjoyed growing profitability in the period 2014-2018. The industry's net profit grew by 4.6% y/y in 2018, with the ITO sector contributing the bulk, or 74.4% of the total EUR 13.2 mln. The major shift in the industry's net profit occurred in 2016 when it doubled annually to EUR 12.6 mln. ITO's performance fuelled the rise of the industry's profitability in 2018, by achieving 10.0% growth. The sharp increase in BPO's labour expenses had an impact on the sector's net profit, which posted an 8.4% annual decline in 2018.

Fig. 38

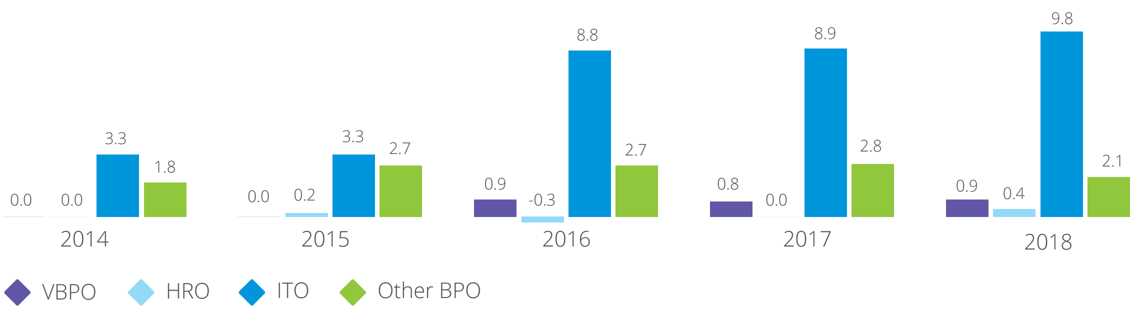
Net Income in Outsourcing by Sector (mln EUR)



Although the total net profit of the BPO narrowed in 2018, almost all of its segments reported better profits in 2018 in comparison to a year earlier. However, the 25.7% drop in the combined net profit of the non-specialised BPO companies pushed down the total result for the sector, as that segment had the biggest net profit among the BPO segments – EUR 2.1 mln. The combined result of the other segments, VBPO and HRO, nearly doubled to EUR 1.3 mln with the HRO seeing its profit jumping to EUR 401,740 from EUR 33,826 in 2017. VBPO's net profit increased more smoothly, by 5.0%.

Fig. 39

Net Income by Segment (mln EUR)

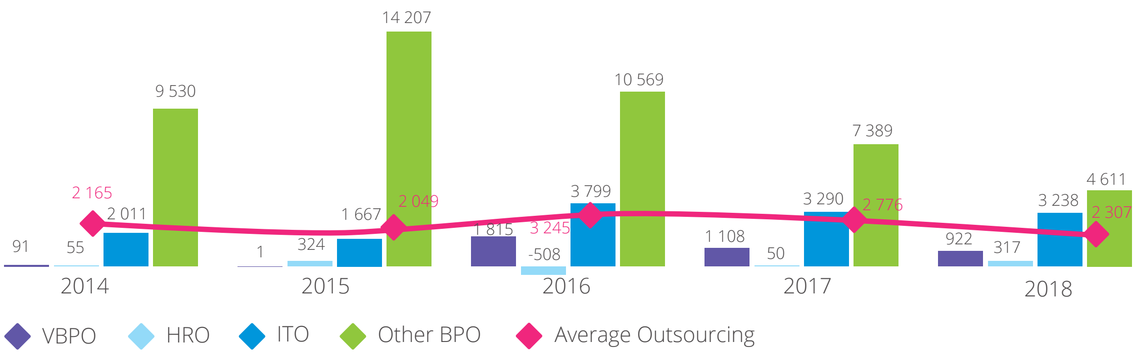


A total of 139, or 74.3% of the outsourcing companies contributed to the industry's overall net result, by achieving net profits in 2018. The share of the loss-making enterprises was 15.5% and 10.2% of the outsourcing providers reported neither a profit nor a loss. The number of profitable companies rose by 8.6% in comparison to 2017.

An employee in the outsourcing industry generated an average of EUR 2,307 in net profit in 2018, or EUR 469 less than a year earlier. The trend in almost all outsourcing sectors and segments mirrored the overall picture in the industry, with declines ranging from 1.6% in the ITO field to 37.6% in the combined result of the non-specialised BPO companies. The only segment to report a rise was HRO – its net profit per employee soared to EUR 317 from EUR 50.

Fig. 40

Net Income per FTE by Segment (EUR)



The stronger growth in operating revenue and the weaker net profit increase reduced the net profit margin of the outsourcing industry to 8.8% in 2018 from 9.9% in 2017. The net profit fluctuations among the different outsourcing sectors and segments in the period 2014-2018 led to ups and downs in the industry's overall profit margin but it remained positive in every year in the period under review. ITO was ahead of BPO in net profit margin terms in 2018. BPO's net profit margin fell to 7.9% in 2018 from 12.0% in 2017. The ITO experienced a much weaker decline to 9.1% from 9.3%. The Other BPO segment had the highest net profit margin in almost every year of the period 2014-2018. However, the 2018 result of 11.9% was the segment's lowest after 10.3% in 2014.

Fig. 41

Net Profit Margin by Segment (%)

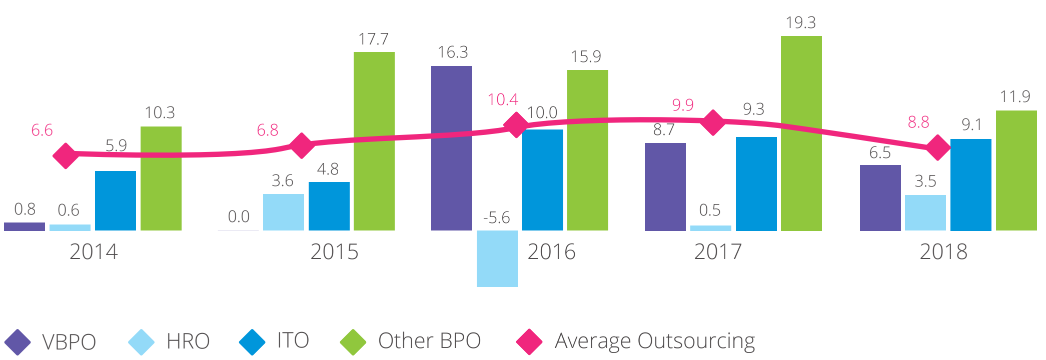


Fig. 42

Best ITO Performers by Net Profit Margin

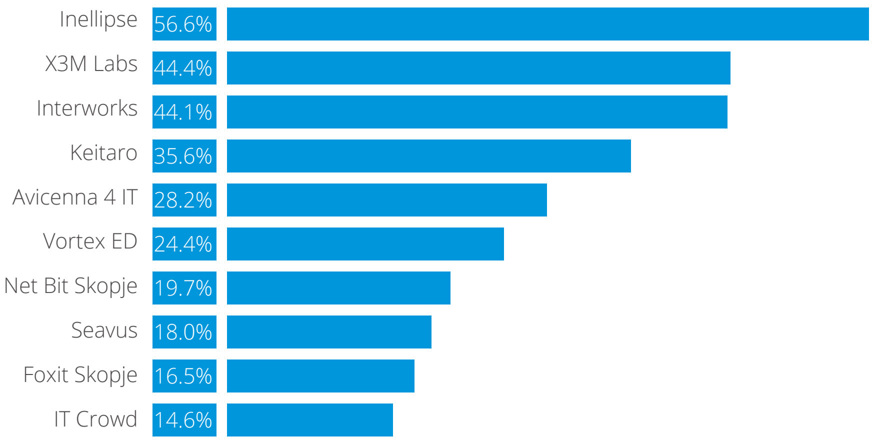
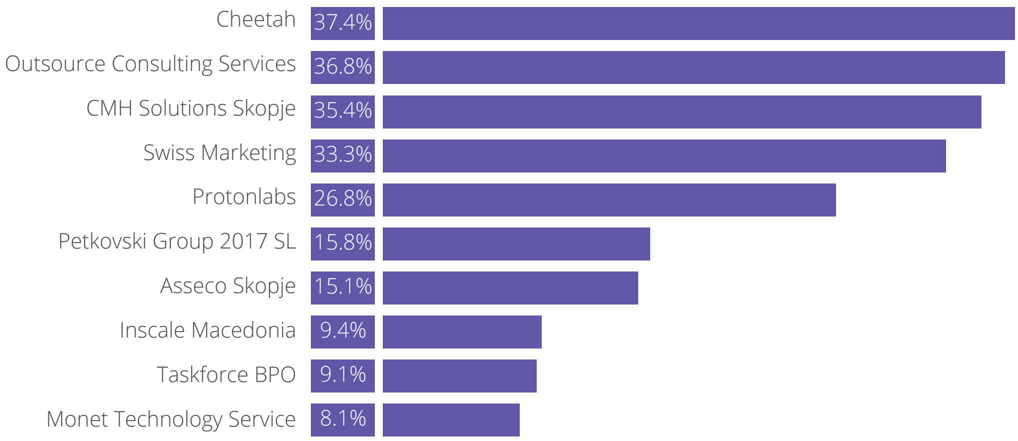


Fig. 43

Best BPO Performers by Net Profit Margin



5. INDUSTRY TRENDS, CORPORATE AND INDUSTRY EVENTS

North Macedonia is the SEE country with the third largest contribution of the outsourcing sector to the national GDP, which stood at 2.1% in 2018, up from 1.8% in 2017.

North Macedonia provides a fertile ground for innovation and entrepreneurship, because of its young and highly educated population, but underdeveloped infrastructure is a huge setback. Other major problems are the grey sector, estimated at 20 to 45% of the national GDP, and the emigration of increasingly well educated people, which has to be turned into opportunity for IT businesses to attract members of the diaspora back to North Macedonia.

North Macedonia aims to specialize in ITO with its more competitively priced labour force than in the major SEE outsourcing destinations, above all through supporting IT education and establishment of business incubators to support innovation. ITO companies are the largest part of the startups in North Macedonia.

A number of international companies such as Seavus (Sweden), Netcetera (Switzerland), M Soft (France), 6PM (UK/Malta) are developing software in North Macedonia for the export market and others are providing customer support for multi-national IT companies.

The major **trans-border companies** in SEE present in North Macedonia include:

S&T AG (Austria)

Ness Technologies (Israel)

Musala Soft AD (Bulgaria)

Melon AD (Bulgaria)

Matrix IT Ltd. (Israel)

IN2 Group (Croatia)

Endava Ltd. (UK)

Dekra SE (Germany)

Cisco Systems Inc. (USA)

Asseco SA (Poland)

A growing number of companies from neighbouring countries, mainly from Bulgaria and Serbia, are present on the Macedonian labour market in the outsourcing industry without having offices or subsidiaries within the country, through hiring freelancers or remote employees in North Macedonia. In 2019 more than 10 of the largest Bulgarian ITO and BPO vendors were active in North Macedonia in this way.

The Macedonian outsourcing industry is characterized by its small size and a very limited number of companies in comparison to the software industries of its neighboring countries such as Bulgaria or Serbia. In 2018 North Macedonia's ICT sector employed more than 5,700 people in 187 active companies. Its size was estimated at EUR 150.3 mln, up from EUR 126.8 mln in 2017. Alternatively, the Agency for Foreign Investors and Export Promotion of the Republic of North Macedonia estimated the local ICT market at EUR 352.0 mln in 2017, of which 45% generated by IT services and software and the rest – by hardware sales.

There is acute need of integration of Macedonian companies in the global value chains. This gives local players the opportunity to get easier access to market and absorb know-how and technologies and skills, including managerial and entrepreneurial. In order to achieve this integration, North Macedonia uses government incentives for foreign investors. The government announced that the largest interest among investors is shown by Bulgarian companies with emphasis on voice-based BPO. However, such FDIs have failed to produce spill-over effects for the rest of the economy.

The main impediment that prevents establishment of productive links between international investors and local partners is the inadequate level of skills and technology in the latter, which do not allow them to match the requirements and procedures of the global companies.

Information technologies are comparatively unsophisticated in North Macedonia, which forces foreign companies to use alternatives outside the country. Diversifying into service tasks within global value chains could help local IT companies upgrade to more sophisticated products and services.

North Macedonia is a modest innovator according to European Innovation Scoreboard 2019 and spends less than 0.5% of its GDP on research and development. Research and development consists mainly of public expenditure, which accelerated in 2019, with minimal private sector input. The country's innovation performance remains below half of the EU average, despite slow improvements. The areas in which North Macedonia shows best results are private non-research and development innovation expenditures, number of foreign doctorate students and medium and high-tech product exports.

5.1. DIGITAL ECONOMY

The digitalization of the economy permanently advances, and the proportion of households with internet access increased by 21 pp within six years to reach 79.3% in 2018. The population's insufficient digital literacy is a significant obstacle to further digitalization of the economy and necessitates implementing a set of measures to improve digital skills.

In North Macedonia there is no legal definition of the outsourcing sector, which is a necessity according to MASIT in order to develop VBPO and software outsourcing as a specific branch of the wider IT industry. Furthermore, the IT sector demands legal changes including above all possibility for state aid to IT companies and lowering income tax to 3.0% from the current overall rate of 10%.

5.2. CITIES OF THE FUTURE

The major strength of North Macedonia lies in the cost effectiveness – the capital Skopje tops the ranking of small European cities, while Stip and Prilep occupy the first two spots among the micro European cities in this category. Again in terms of cost effectiveness, the region of Skopje ranks third among the small European regions.

5.3. SWOT ANALYSIS

Strengths

- Corporate tax rate of 10% is a major competitive advantage of North Macedonia against most SEE countries and the rest of Europe.
- North Macedonia exceeds the regional average knowledge of foreign languages.
- Cultural similarity and geographical proximity to Western European clients.
- North Macedonia holds competitive rental rates for prime office premises compared with its closest outsourcing competitors – Serbia, Montenegro, Bosnia and Herzegovina and Albania.

Weaknesses

- Lack of specialized outsourcing organization – the sector is under the responsibility of the ICT association.
- North Macedonia is among the four worst performing nations worldwide in the PISA tests, which measure the reading, mathematics and science skills of students.
- The country falls considerably behind the larger players in SEE in terms of telecommunications infrastructure, with internet connection speed being among the slowest in the region.

Opportunities

- North Macedonia's tech industry should emphasize on movement from low-end outsourcing and customer support to innovative high value added services.
- Concentration on high-value added tech activities performed in smaller teams and companies.
- International collaboration between the countries in the region can bring multiple benefits and boost their outsourcing power.
- Intensive government support for tech education and attracting investors. Reforms in the education system are underway to bridge the skills gap between school and university on one side and the labour market on the other side.
- Targeted efforts for raising awareness of North Macedonia's outsourcing sector in the key export destinations are necessary.

Threats

- In order to match the demand for labour force and keep up with the outsourcing sector development, the talent pool with suitable skills needs to be expanded.
- North Macedonia still lags behind the EU average in terms of STEM (Science, Technology, Engineering, and Mathematics) skills of its human capital.

6. METHODOLOGY

The purpose of the report Outsourcing Industry Ecosystem in North Macedonia 2017/2018 is to provide a complete picture of the industry's developments in the country in the period 2014-2018 and provide reliable, comparable and comprehensive data about the market.

The main focus of the report is the analysis of the ITO and BPO sectors of the outsourcing industry, including voice-based BPO (VBPO), human resource outsourcing (HRO) and other vendors specialised in providing more than one type of services (Other BPO). The latter segment encompasses a wider range of companies performing different activities not classified as one of the two main BPO types. Knowledge process outsourcing (KPO), finance and accounting outsourcing (FAO) and shared service centres (SSC) are all incorporated in the Other BPO segment due to the inadequate number of companies engaged in these activities, which would hamper the market analysis.

The report was prepared between June and October 2019.

Identification of companies

The report Outsourcing Industry Ecosystem in North Macedonia 2017/2018 encompasses 187 outsourcing services providers from all segments. We excluded system integrators, as well as software and hardware distributors and companies generating revenue predominantly from sale of own products.

The identification process consists of the following steps:

- Individual desktop check of all companies in North Macedonia 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.
- Removing inactive or irrelevant companies. In the process of company identification, companies performing at least some amount of outsourcing activities are included in the pool.
- Checking associations, clusters and other industry associations for new players and adding them to the pool if they meet the criteria.
- Final check of the pool and distribution by segments.

More than 450 companies were examined individually to select the final pool of 187 providers analysed in the report. Throughout the identification process, following each new step, the pool of companies was sent to MASIT for verification and confirmation.

Financial analysis

The financial analysis consists of four chapters – Employment, Market size, Labour costs and Profits and profitability.

We have used the non-consolidated company records of all vendors provided by MASIT and in our proprietary database to collect information about financial indicators such as labour costs and social security expenditure, operating revenue (turnover), tax expenses, net profit and loss, share capital and average annual number of employees for five consecutive years - 2014-2018. Time analysis is based on the aggregated indicators of all companies for 2017 and 2018. Forecasts for the period 2019-2022 are calculated based on the CAGR of the companies in the respective segment in the five-year period 2014-2018. Other BPO forecast is calculated using the average industry CAGR in order to avoid dependency on the fluctuations in the performance of a single company which dominates the structure of the segment.

Employment

Employment figures are equivalent to average annual FTE numbers and are taken from the financial indicators pool with all identified companies. Where differentiation of employees by activity (outsourcing or not) or between segments is not possible, we consider the full headcount of the companies in the calculations of their primary segments. Calculations include: ranking by number; sum by segment; average by segment. Forecasts for the period 2019-2022 use the calculated CAGR of employment growth between 2014 and 2018. SSC is included as a separate BPO segment for the first time in the 2019 edition.

Market size

The indicator for calculating the market size is individual operating revenue of the companies for 2018. Forecasts up to 2022 are made using CAGR for the 2014-2018 period. Calculations include: ranking by number; sum by segment; average by segment; revenue/employee ratios; graphical representation - five-year trend; forecasts.

Most dynamic companies ranking is based on the year-on-year change in operating revenue for ITO and BPO. The top five companies in each sector are represented graphically. The ranking excludes:

- companies established in the last three years

- companies with nine or fewer employees

- companies with less than EUR 50,000 in operating revenue

It includes only companies that have reported positive financial results in the last three years.

Labour costs

Labour costs include net salary costs, personal income taxes and social security contributions. Total tax expenses are also included in this chapter. Forecasts up to 2022 are made using CAGR for the 2014-2018 period. Calculations include: sum by segment; average by segment; graphical representation - five-year trend; costs/employee ratios; forecasts.

Profits and profitability

Individual net financial result provided by MASIT and our proprietary database is used as an indicator of profitability. Forecasts up to 2022 are made using CAGR for the 2014-2018 period. We have excluded vendors with profit margins above 100%, companies with annual operating revenue below EUR 50,000, as well as recently created companies (last three years) from the ranking of companies by profit margin. Calculations include: sum by segment; average by segment; graphical representation - five-year trend; profit/employee ratios; net profit margin is calculated as net profit/loss over operating revenue; forecasts.

Non-financial chapters

Outsourcing destination North Macedonia

Factsheet data about North Macedonia are gathered from official government and statistical sources (State Statistical Office, National Bank of the Republic of North Macedonia). Macedonian economy forecasts are taken from the latest edition of IMF World Economic Outlook.

Market drivers

Factors, such as labour and electricity costs, taxes and office space developments are examined based on desktop research of official local and EU sources and consultancy reports.

Talent pool analysis is based on data from the State Statistical Office. In the workforce education chapter and the city profiles, we have defined professional areas suitable for outsourcing as follows: university majors in the areas of Language studies, Administration and Management, Economics, Mathematics, IT and Computer Science and Communication and Computer Technology, as well as mathematics, science, economics and language high schools.

The positions of North Macedonia in global rankings are derived from desktop research of international rankings relevant to the outsourcing industry by different consultancy companies and institutions.

City profiles

All identified outsourcing companies, headquartered in Skopje (the other cities, respectively), are grouped by segment and graphically represented. City profiles feature only vendors based in the respective city, not in the municipality or the district. Headcount represents all employees as shown in the pool of companies, with which each company is included in the financial analysis, regardless which company office they work in.

Vendors landscape

For each company we identify: headquarters (according to the trade register), secondary offices in North Macedonia and abroad (through desktop research of own websites and job sites), ownership structure (latest available data in our proprietary database or as declared on the company's website where available), customers by country and languages (through desktop research of website, annual report and job sites). Data are grouped, analysed and graphically represented using MS Excel.

List of companies

All identified companies are listed with their names as currently shown in the trade register. Companies are listed alphabetically and grouped by segment.

7. LIST OF COMPANIES RESEARCHED FOR THE PURPOSE OF THIS REPORT

ITO

Abix DOOEL
Adamantus Group DOOEL
Adamantus Strumica DOOEL
Aitonix DOOEL
Akota Ing DOOEL
Alite Sourcing DOOEL
Allocate Software Skopje DOOEL
Alosys Communications - Branch Skopje DOO
Alternative System Integration DOO
Artemisoft Skopje DOOEL
Avicenna 4 IT DOO
Axeltra DOOEL
BCS DOO
Biditi Skopje DOOEL
Blafsoft Skopje DOOEL
Blank Software DOOEL
Bransys DOOEL
Capcargo Macedonia DOOEL
Centrium Tech Ltd DOOEL
Cisco Systems Macedonia DOOEL
Codenetis DOOEL
Codera DOOEL
CodeWell Unlimited DOO
Codit Solution DOOEL
Cosmic Development DOO
Cuspis DOOEL
Digicube DOO
Digital Point Skopje DOOEL
Digital Solutions DOOEL
Dyna SDC DOO
ECS Software DOO
Edusoft DOO
Ein-Sof DOOEL - in bankruptcy proceedings
Elikosoft DOOEL
EmailPlatform DOOEL
Endava DOOEL
Enterbit Systems DOOEL
Essence Code DOOEL
Europoint Macedonia DOOEL
Ever Near DOO
Foxit Skopje DOOEL
G Medical Innovations MK DOOEL
Gigavoice Strumica DOOEL
Gimex Net DOOEL
Gord Systems DOOEL
Gord Systems Services DOOEL
Gordian Systems DOO
GrabIT DOOEL
Gsix Solutions DOO
Has Engineering DOO
Iborn Net Skopje DOO
Igea Mak DOO
IN2 Skopje DOOEL
Inellipse DOOEL
INet DOO
Infinite Solutions Skopje DOO
INform DOO
Innosmart Soft DOO
Inspire Eleven DOOEL
Inspiron Solutions DOO
Intelligent Network Solution Skopje DOO
Interworks DOOEL
Iskon Solutions DOO
Isource DOO
IT Crowd DOOEL
IT Labs Skopje DOO
IT Solutions DOO
Itecor Services DOOEL
ITgma Skopje DOO
Itgma Sourcing DOOEL
ITS Iskratel Telecommunication Systems DOO
Keitaro DOOEL
Kennedy Technologies DOOEL
King ICT DOOEL
KJ Tech DOOEL
Kromatik Solutions DOO
Kubikos IT DOOEL
Lean D Solutions DOOEL
Livedooh DOO
Makidea DOOEL
Marseco DOO
Matrix IT Global Services
Makedonija Skopje DOOEL
Media Dot Com Skopje DOOEL
Melon Technologies DOOEL
Momentum Software Systems DOOEL
More Screens DOO
Musala Soft Skopje DOOEL
Nebb Software Skopje DOOEL
Nebiz IT DOOEL
Ness Czech Prague - North Macedonia Branch EAD
Net Bit Skopje DOO
Netcetera Skopje DOOEL
Netra DOO
Next Step Solution DOOEL
Norliga Development DOOEL
Open Mind Solutions Skopje DOO
Polar Cape Macedonia DOOEL
Radix Technologies DOOEL
Rubico Global DOOEL
S i T Makedonija Skopje DOOEL
Seavus DOOEL
Semos DOO
SIMT DOOEL
Sourcico DOO
Symphony Solutions DOOEL
Tabellarius DOOEL
Tardigrade DOOEL
Tehnologica Skopje DOOEL
TeleTech Macedonia DOOEL
Valoso Hub DOOEL
Venikom DOOEL
Vesper DOOEL
Virtual SC DOOEL
Vista Group DOOEL
Vortex ED DOO
Vox Teneo Macedonia DOO
X3M Labs DOOEL
Xessable DOO Skopje

HRO

Adeva IT DOO
Alexander Hughes Macedonia DOO
CEE HR Consulting DOOEL
Coordea Outsourcing DOO
Dekra Arbeit Macedonia
Dekra Skopje
Elements Global Services Macedonia DOOEL
ESI Employment Services Skopje
Executive Search Leasing Skopje
German Healthcare Services DOO
Inscale Macedonia DOOEL
MGR Management International Skopje DOOEL
Petkovski Group 2017 SL DOOEL

VBPO

Alef Business Solutions DOO
Business Phone DOO
Causal Capital DOO
CMH Solutions Skopje DOOEL
Compass Management International DOOEL
Data Solutions Group DOO
Dettech Systems DOO
DSD-Happiness DOO
Egemen DOOEL
Euro Answer Skopje DOOEL
Euronet Europa Service DOOEL
Express Respond DOOEL
Extended DOOEL
Fidelity Abs DOOEL
HED Call Center Solutions DOO
In Opera DOO
InPlayer Hub DOOEL
LBLN 2018 Debar DOOEL
Lotus DS Company DOOEL
Marketing Force DOOEL
Mistral Trade DOOEL
Monet Technology Service DOOEL
MTS Trading Solutions DOOEL
My Call DOOEL
My Pizza DOOEL
Nova Master Communications DOOEL
OneContact DOOEL
Outsource Consulting Services DOO
Pasha Consulting DOOEL
Pause Solution DOOEL
Premium Support DOO
Protonlabs DOOEL
Salescall DOOEL
Studio Devana DOOEL
Swiss Marketing DOOEL
SXM Management DOOEL
Tak Time Skopje DOOEL
Telebalkan DOOEL
Telemarketing Proconsulting 2016 DOOEL
VP-Spes Group DOOEL
Yacero DOO
ZRB DOOEL

Other BPO

Accent Prevod i Tolkuvanje DOOEL
Asseco DOOEL Skopje
Bizi Group DOO
Bor-Dan Company DOOEL
BPO London DOOEL
Cheetah DOO
German Drawings DOOEL
GMM Group DOOEL
Next Gen DOOEL
Prospertop DOOEL
Sigma SB DOO
Solveo DOO
Supreme Mobility DOOEL
Taskforce BPO DOO

LIST OF ABBREVIATIONS

BPO - Business process outsourcing
CAGR - Compound annual growth rate
EU-28 - European Union's 28 member countries
EUR - Euro
FAO - Finance and accounting outsourcing
FDI - Foreign direct investments
FTEs - Full-time employees
GDP - Gross domestic product
HRO - Human resource sourcing
ICT - Information and Communication Technologies
IMF - International Monetary Fund
ITO - Information technology sourcing
KPO - Knowledge process sourcing
MASIT - ICT Chamber of Commerce
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
y/y – year-on-year

SOURCES

Agency for Foreign Investors and Export Promotion of the Republic of North Macedonia (Invest in North Macedonia)
www.investinmacedonia.com
Cushman & Wakefield / FORTONMKA
https://cwforton.mk
Eurostat
https://ec.europa.eu
fDi Intelligence
www.fdiintelligence.com
International Monetary Fund
https://imf.org
KPMG International
https://home.kpmg
Macedonian Chamber of Information and Communication Technologies (MASIT)
www.masit.org.mk
National Bank of the Republic of North Macedonia
www.nbrm.mk
Numbeo
www.numbeo.com
Programme for International Student Assessment (PISA)
www.oecd.org/pisa/
State Statistical Office of the Republic of North Macedonia
www.stat.gov.mk
The World Economic Forum
www.weforum.org
World Bank Group
www.worldbank.org

LIST OF FIGURES

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