Call centers in Hungary

A special report

This report gives an overview of the Hungarian call center market, based on the personal experiences and surveys of the author. This report examines the call centers from the technological and business integration point of view, and does not deal with HR or other issues. To be able to give you relevant data, we analyzed some published reports as well.

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1 SITUATION ANALYSIS

1.1 Politics and Basic facts

The most recent elections for Parliament were held in May of 2006. The Hungarian Socialist Party (MSZP) gained a 51% majority and invited the Free Democrats (SZDSZ) to join a coalition government (altogether more than 55%). The biggest oppposition is the Alliance of Young Democrats (FIDESZ). Politically Hungary is divided, nearly third of the people are on the left, third on the right and third is unsure. Nowadays political scandals of corruptions and other issues are on the headlines, so people turn away from the parties significantly.

Hungary became a member of the OECD in May 1996 and of the EU since May, 2004. Having experimented with increased enterprise autonomy since 1968, Hungary embarked on more ambitious market-oriented reforms between 1989 and 1991. Comprehensive liberalisation was introduced for prices and foreign trade, the tax system was revamped, the banking system became increasingly market-based and privatisation was initiated.

From 1st May, 2004 Hungary became a member of the European Union (EU). The conformity of law is good, the regulations and other political issues are more or less „EU-compliants”.

Today Hungary has 10 million inhabitants.

Current exchange rates are 1,- Euro is 255,- Forints, and 1,- US Dollar is 180 Forints. Hungary has been the target country for large multinational companies nearshoring activities, like GE, IBM, GM, Audi, GE Capital, Phillips, Nokia, Suzuki, Coca-Cola, Unilever and Shell to name a few.

But nowadays, according to analysts, Hungary lost its position in the ECE, leaving space for teh Czech Republik, Slovenia Slovakia and even for Romania (a new member of the EU) as well.

1.2 Economic

In 2002, the Social Party won the election and the new goverment did not carried on with the prior stabilizing programs, rather raised the salaries of the govermental sector (818.000 people, 1/5th of the totqal active citizens). The Government’s goal is to develop conditions in which a satisfactory rate of economic growth can be financed on a secure long-term basis without. The state budget has a deficit of 8,5% which is very high, and the introduction of the Euro is behind 2012. For 2008 the deficit plan is approx. 6,5%, and for this goal to be achieved, the goverment introduced hard restrictions for the citizens. Also real fundamental changes is going to be made to the social-security system and the hospital treatments. On the other hand, the govermental spenditure was cut half in 2007 and we expect this for the next years as well. The corruption and political tactics make the industry and the telecommunications sector unsure.The key economical data can be found in the next table from 2000 to 2005/2006. All the figures are in million USD at a constant rate of 1,- USD = 180,- HUF or in %.

	2001	2002	2003	2004	2005	2006
GDP	84,830	95,450	105,200	115,100	122,500	
Harmonised consumer inflation		5,3	4,7	6,8	3,5	4,0
Investment in billion USD	17,6	19,7	20,6	23,17	24,83	25,82
Investment volume growth rate	4,6	9,8	0,9	9,1	4,7	-2,0
Number of fixed telephone lines (B channels)	3,75 M	3,67M	3,61M	3,57M	3,45M	3,36M
Mobile subscription	3,07M	4,97M	6,89M	7,95M	8,73M	9,32M

The number of enterprises are listed below in the telecommunications perspective:

	Number of enterprises	**Employees/ enterprise**	**Sites/ent erprise**	**Phones/enter prise**	**PCs in LAN/enterprise**
Large (250+)	1 250	983	16	355	290
Mid-sized (50-249)	5 143	115	3,2	56	44
Small (10-49)	26 888	20,5	1,6	12	11

The IT and telco usage in % among the enterprises (including all size) are shown below:

	2003	2004	2005
PC, workstation	85,6	88,6	89,5
Mobile phones	90	90,1	90,1
LAN	34,7	39,5	49,1
DECT, WiFi	3,3	6,0	10,2
WAN	7,2	8,0	11,1
Intranet	11,3	12,6	17,0
Extranet	2,3	2,7	3,9
Internet/WWW	67	76	78
e-mail	64	73	74
Internet based EDI	5,8	6,9	11,5
Non-Internet type of EDI	5,1	4,9	8,5

The usage of the internet:

	2003	2004	2005
Information seeking	97,7	95,7	95,6
e-mail	93	93	91
Banking, other financial services	50	63	64,5
Market surveys, market monitoring	40	50	50
Advertisement, marketing	43	42	43
Purchasing products/services			27,6
Education/training	19	19	22
Accessing after-sales support			13

1.3 Economic prospects for 2007-2010

According to Government prognosis, the extent of the current account and state budget deficit (6,8%) will be further decreased and the inflation rate (4-5%) will be kept in the short term. The Government aims to ensure conditions of economic growth which will not lead to the worsening of the equilibrium or an acceleration of inflation, while guarantees to restrain the further deterioration of living standards. The medium term economic policy of the Government focuses on the following aspects in order to achieve the above mentioned objectives: encouragement of investments, a comprehensive state budget reform and curbing of inflationary expectations.

The Government expects a 2-3 % increase in GDP for 2007, an upturn in private consumption and a stagnation of capital expenditures. The Government expects these tendencies to continue and real wages to increase slightly in the 2008-2010 period.

1.4 Social

Hungary’s labour market is currently experiencing a period of significant change. The number of unemployment was 5,7 % in 2007 that is 239,000 persons were registered as unemployed out of a total labour force of approx 4 million. This figure is down from a peak of 13.6 in February 1993. Unemployment bears most heavily on unskilled labourers and those with the skills traditionally associated with heavy industry. The average brutto income in the govermental sector is 800 USD (25% increase in 2006), while in the enterprise sector is 600 USD (8,7% incr). The govermental sector has a total of 818.000 (+3,6%), while the enterprise has 1.877.000 employee (-0,2%).

In Hungary people speak no foreign languages: while the EU average is 53% this is less than 15% here (second spoken language).

For a complete review of Hungary’s main data please see this URL: http://www.ksh.hu/

1.5 Technical

Although, infrastructure is still poor in Hungary road systems has already started to meet rising demands and the technical level of telecommunication services have already exceeded the technical level of telecommunication in the surrounding countries.

In the late ’90s, the monopoly position of MATÁV (Hungarian Telecommunication Company-largest company in telecommunication business in Hungary, today a part of the T-Group called T-Com) was abolished by telecommunication concession law. It made possible for service companies other than MATÁV to provide trunk lines in the concession areas. Currently T-Com (owned by DT), HTCC (listed US company) and Vivendi (recently merged together with PanTel) are the concessors. Comparing to the companies obligated in the concession, MATÁV started to focus on quality services. MATÁV has the market majority with about 80% of the wired-access, HTCC-Vivendi has 12%. The GSM market has 3 players: Westel (approx 48% market share), Pannon (38%) and Vodafone (14%). Currently the trend is to cancel the wire phone access to GSM, and now there are more GSM subscribers than landlines.

Alternate providers are: PanTel (part of the HTCC-Vivendi), GTS, UPC and some local smaller players.

Internet service providers are: T-Online (T-Group), GTS Hungary (Russian Menatep), HTCC-Vivendi, UPC and many small other companies (Enternet, Externet, Vivanet, etc.). T-Online has the majority of the market, especially the dial-up individuals and the ADSL private and business. Recent figures are 500.000 individual subsrcibers and more than 200.000 ADSL business customers. Also T-Online operates the most popular freemail (part of the portal service, called Origo), service with more than 1,3 million active mailboxes. GTS (formarely DataNet) is concentrating on the business customers and has the second largest market share while Elender also does the same on the third place. A lot of small, regional or local service providers can be found. UPC also very active on the ISP market with the brand „Chello”, providing flat-rate speedy internet access via it’s cable network. Prices are very close to each other, a 128/1024K ADSL starts at 20 USD, goes up to 87 USD with fix IP address, mailboxes, web-server rental, etc.

The homepages of the companies are mostly static, the b2b or any interaction can not be found. Kirowski, Webigen, IBM, Oracle and Microsoft are the main players on the web-design market.

ISDN services was launched in Hungary in 1996. ISDN (both BRA and PRA) is available throughout the country, also MLL (managed leased line). ADSL subscribers increase, currently about 100.000.

T-Com, PanTel and GTS provides managed leased lines. T-Com on its own, PanTel ownes the railway (MÁV) and the oil-company's (MOL) lines, majority of it is fiber at least in the backbone. GTS uses the 3,5 GHz microvawe.
MLLN, ISDN, ADSL VSAT and such technologies are available throughout the country without or with very few limitations.
In summary we can say that the telecommunication infrastructure in Hungary is well-enough not to be the obstackle of any developments.
Much worse the mentality of the people, regardless of the size of the company and his/her position. Usually the lowest price, the personal contacts and other financial factors are more taken into account than the real value of the solution.
The low salaries, the low competition in the industry, the huge goverment organisations are not for the professional solutions, rather for how to cut costs, both in operation and in investments.

2 MARKET DEFINITION

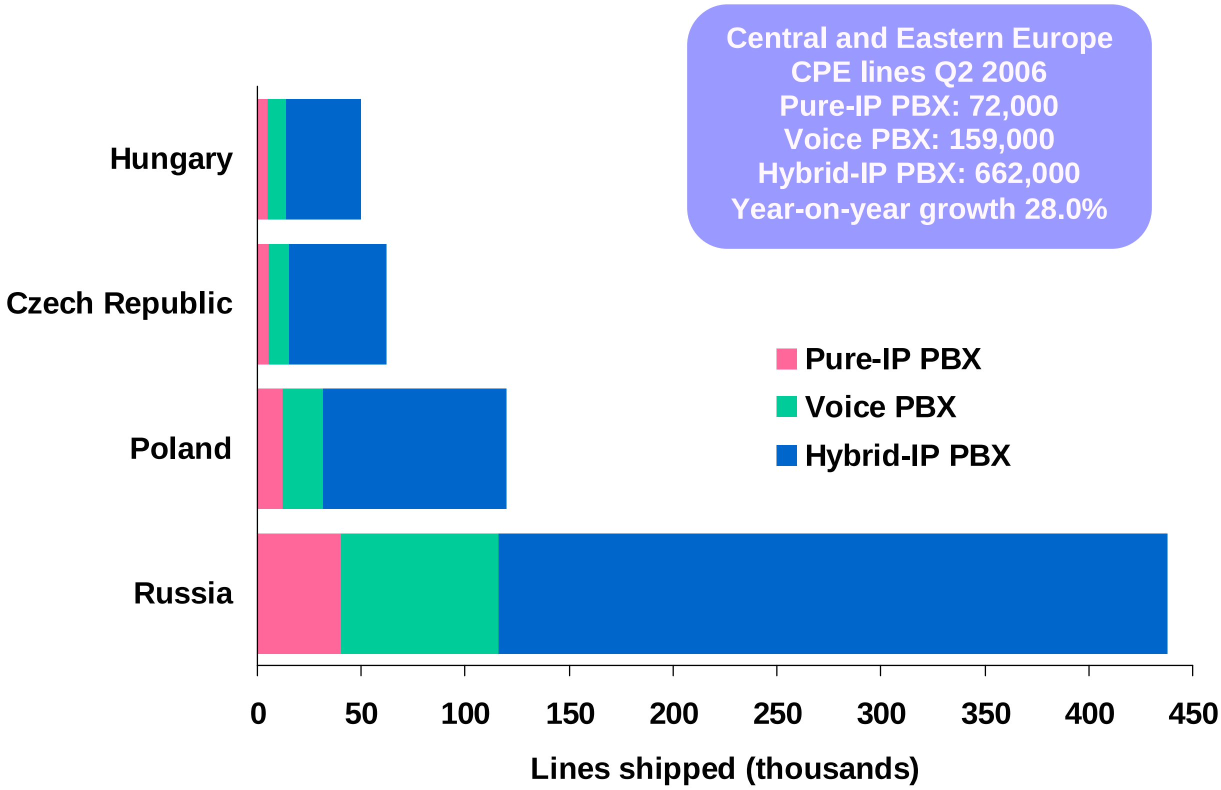
2.1 Market demographics

There is no precise overview of the market. Some figures can be found based on surveys conducted among the 6 major vendors. The picture below contains the number of sold ports by system sizes in the year listed. The lines are either tdm or IP.
The number of the old electro-mechanical and electronic PBXs is zero. The picture enclosed gives an overview of the 2nd quarter of 2006. The figures come from a report of a highly qualified international market intelligence report, however seems to overestimates the real figures. In Hungary we estimate the annually delivered new or upgraded ports are around 50,000.

	Number of enterprises	Phones/enterprise	Total phone sets	Total number of call centers
Large (250+)	1 250	355	445,000	150
Mid-sized (50-249)	5 143	56	288,000	50
Small (10-49)	26 888	12	322,600	100

Today, the installed call centers can provide the following (including all IVR traffic) services:

Information about prices, pricing conditions	63%
Describing services/products	52%
Information providing for new services/products	48%
Modifying customer data	44%
Actual information about the products/services	44%
Promotional lines	44%
Actual information about the company	33%
Contracting, modifying running contracts	26%
Accessing personal information (balance, status, etc.)	22%
Transactions, , help-desking	4% (!)
Orders	4% (!)



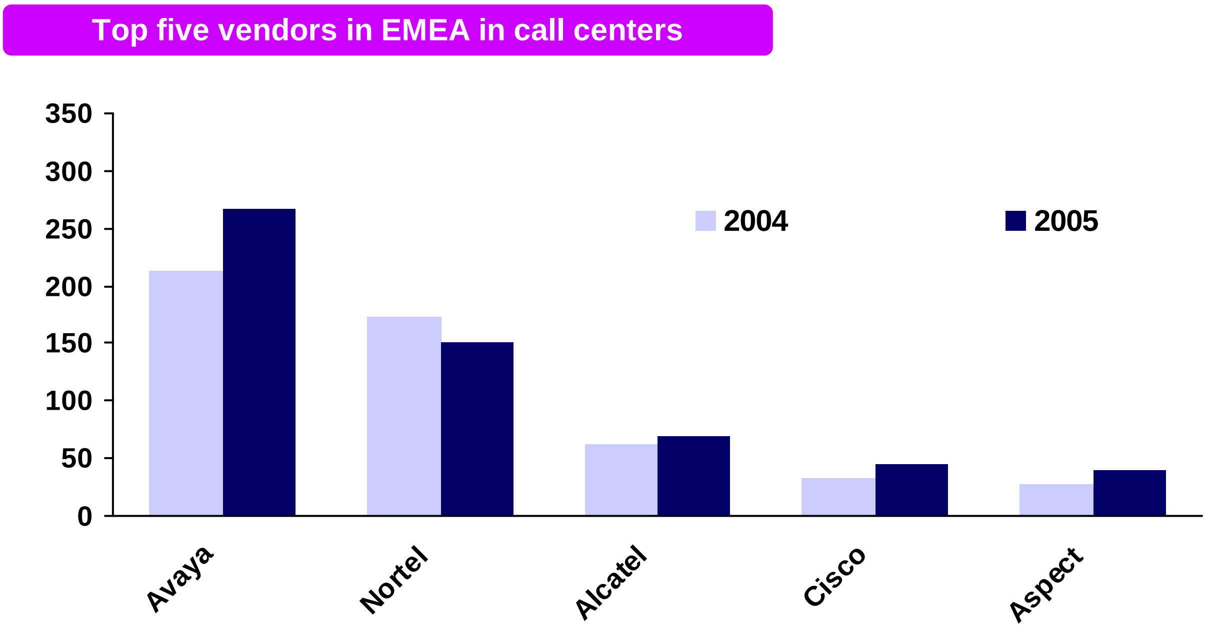
2.2 Vendors

The main vendors are: Panasonic, Avaya, Bosch, Ericsson, Cisco and Alcatel. TCT, TC&C, Kapsch are playing in niche markets (mainly call centers) and Siemens is likely to move out from the industry.

	Panasonic	Siemens	Alcatel	Bosch	Avaya	Ericsson	other
Large (250+)	35%	18%	8%	10%	6%	15%	8%
Mid-sized (50-249)	52%	18%	7%	10%	4%	4%	5%
Small (10-49)	68%	10%	4%	5%	0,5%	3%	10%

This tale shows the total market share by the major competitors. Note that the figures above are based on estimation, since an official analysis of this market is not available.

In an EMEA-wide survey another reports shows the Top 5 vendors in the mentioned 4 countries: Hungary, Czech Republik, Poland and Russia. Note, thet Aspect is not represented in the hungarian market at all. Also in Hungary, the ranking is different from the EMEA survey:
No.1. Avaya with 50+ % market share of new and add-on sales
No.2. Alcatel with approx 20 % market share of new and add-on sales
No.3. Cisco with approx 15% market share of new and add-on sales



3 CURRENT PICTURE OF THE CALL CENTER MARKET

1.1. Facts about the market

Definitions:
We define call center in this report, which has:

- Free or in-house market activities (internal help-desks and other internally organized call centers are also reported)
- has ACD function as a minimum technical level (single line customer service, hunt-group only or TAFAS type departments are not reported)
- not serving any special or emergency or public safety purposes (ambulance, fire-brigade, police, Tetra, air-control, National Security systems, etc.)
- has inbound or outbound telephone activities with live operator (automated-only centers are not reported, also e-mail only helpdesks)

The final figures we will calculate are the following ones:

1. the number of lines shipped in Hungary are 50,000 annually
2. the contact center market size is approx. 3.000 licences/year or 14 million USD in terms of sold products, softwares, hardwares
3. approx. 14.500 people are working in call centers in 2007 in Hungary
4. The service market size is approximately another 7 million USD per annum
5. The tables below show the status of the year-end of 2006

As per the total EMEA market the key figures are:

EMEA contact centre agents
New and add-on shipments
2004: 641,000
2005: 757,000
Year-on-year growth: 18.1%

About the market demographics we can provide the following figures:

	2003	2004	2005	2006
agent positions	9000	10000	12500	14500
call centers	285	336	380	425
average CC size	30	30,4	33,5	34,1
% of IP ports	3%	7%	11%	16%

The call center sizes:

	2003	2004	2005	2006
10-30 operators	1100	1500	1900	2250
31-100 ops	2300	3150	4000	4600
101-250 ops	2800	2900	3500	3900
250+ ops	2800	2450	3100	3750

The total spending in the call center market as follows (in thousand USD):

	2003	2004	2005	2006
I/B hardware spending	2 600	2 700	3 450	4 000
I/B software spending	3 000	3 600	5 100	6 600
Outbound spending	250	500	550	650
quality monitoring spending	300	650	950	1 150
Other (WFMS, agent analytics, etc.)		550	950	1 200
TOTAL		8 000	11 000	13 600

Also the spenditure by call center size:

	2003	2004	2005	2006
10-30 operators	850	1270	1 700	2 100
31-100 ops	1000	1750	2 400	3 000
101-250 ops	2100	2200	3 000	3 600
250+ ops	2000	2100	2 950	3 800

And the quality monitoring spenditure by call center size (in thousand USD):

	2003	2004	2005	2006
10-30 operators	50,00	100,00	140,00	180,00
31-100 ops	50,00	140,00	200,00	250,00
101-250 ops	140,00	180,00	250,00	300,00
250+ ops	150,00	170,00	250,00	320,00

The type of companies who invest into quality monitoring can be found next (000s USD):

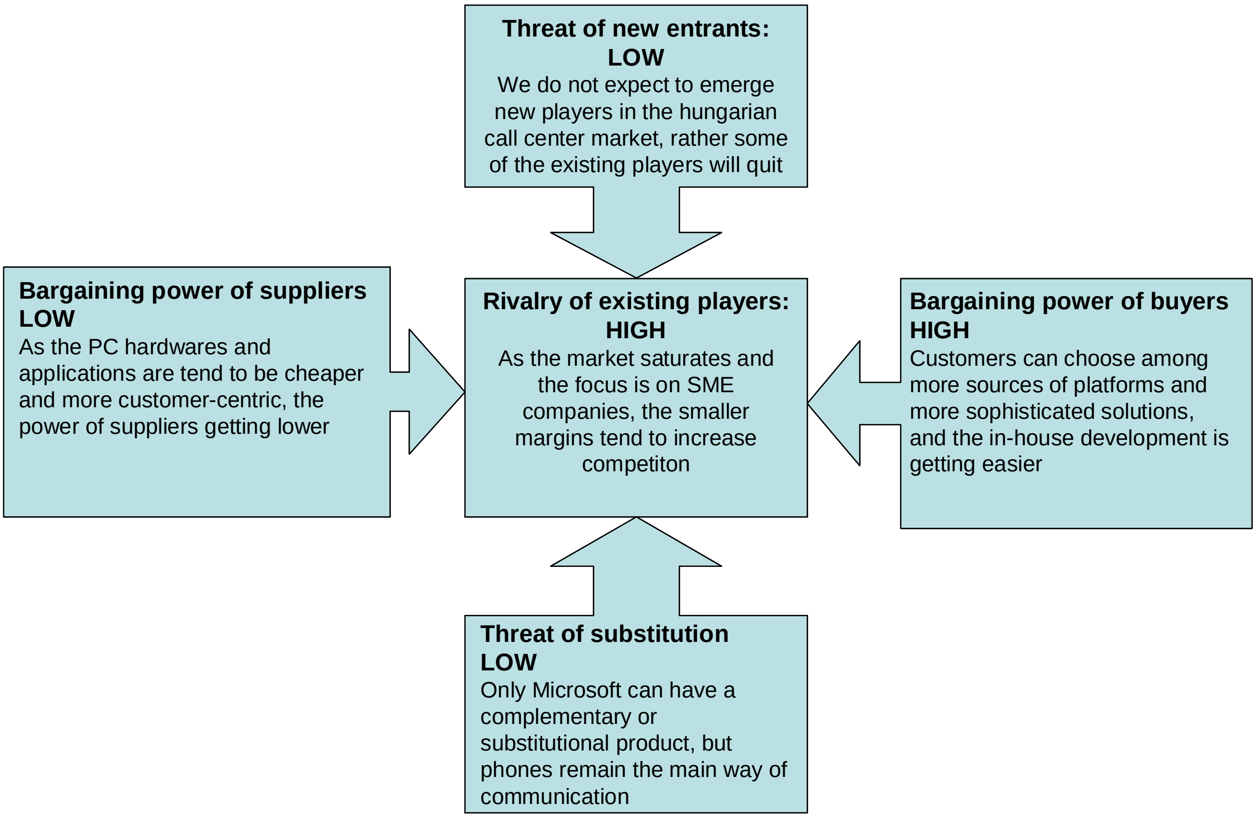
	2003	2004	2005	2006
Communications	78	93	130	160
Distribution and wholesale	8	14	20	25
Entertainment, media and leisu	8	14	20	25
Financial services	125	145	198	237
Healthcare	23	37	53	66
Manufacturing	32	47	64	77
Outsourcing	30	78	114	146
Public sector	38	64	95	124
Retail	20	34	48	60
Technology	23	36	49	58
Travel and tourism	33	56	77	94
Utilities	24	37	54	69
Other	2	2	3	3

Please note, that we did not take the very small (less than 10 agents) call centers into account, as they do not represent neither significant number of ports nor spenditure, except the quality monitoring tables.

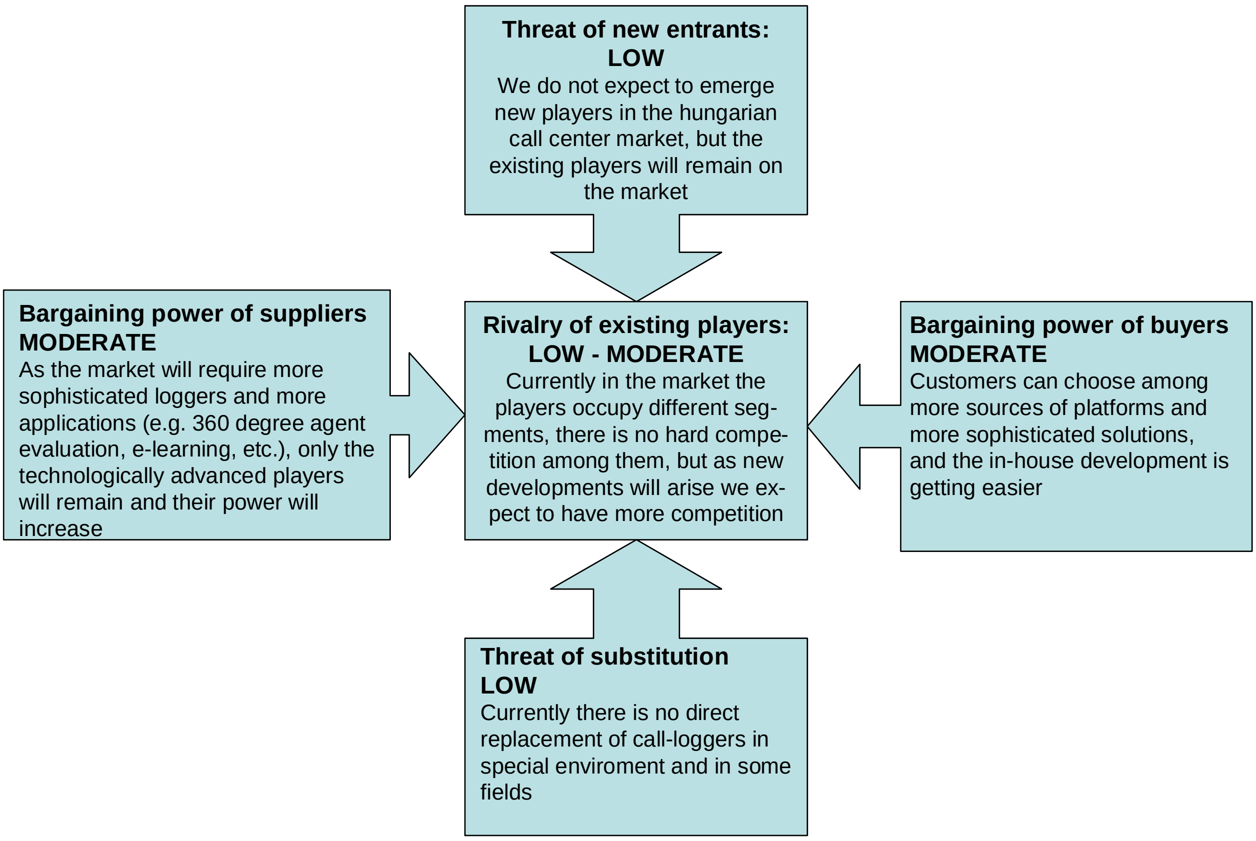
1.2. Market analysis

For a general view of the current call center market and some of it's key segments we will use Porter's 5Forces analysis. First we analyze the call center vendors' market and then the additional components manufacturers' (in this report: call-logger)

The call center market generally:



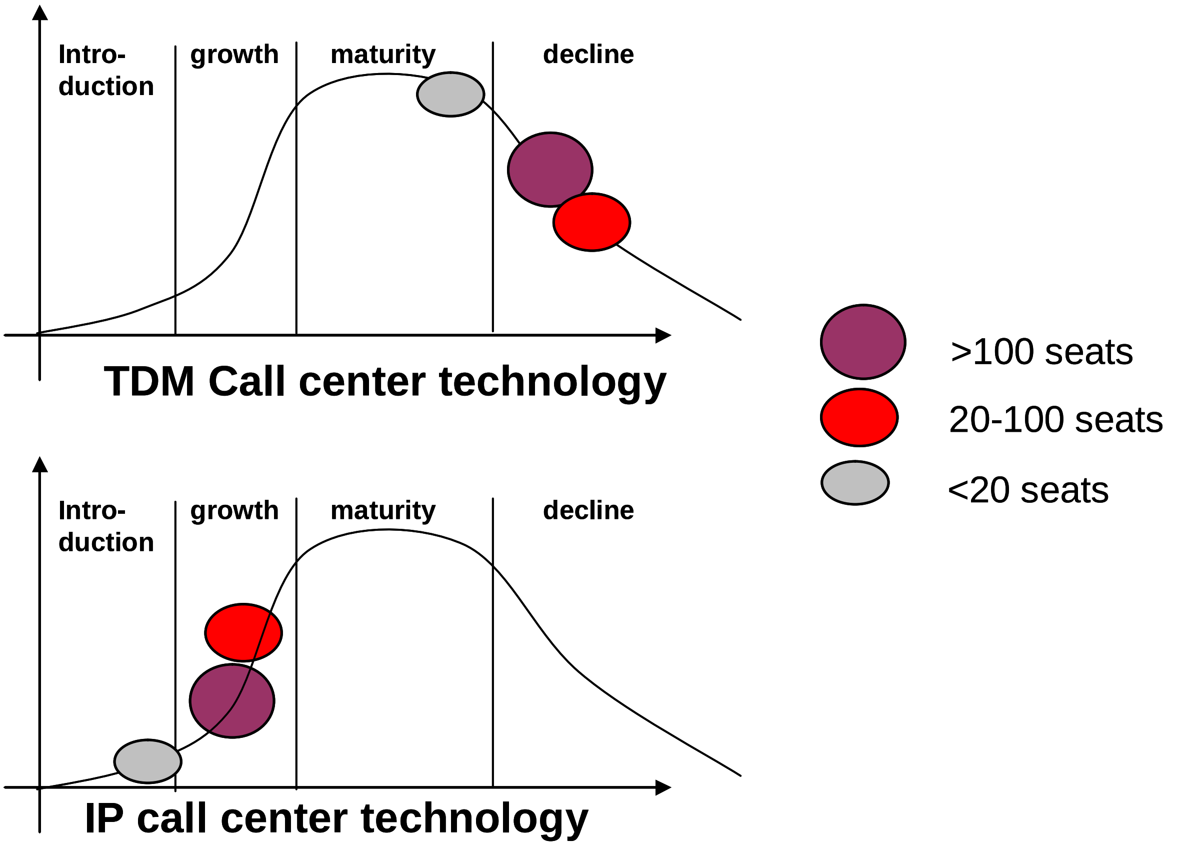
And the call logger market within the call center market:



For the call centers the level and intense of applications and the level and intense of the integrations with back-office and with other applications are key. The maturity of this market segment can be described well by the adoption curve and to put the hungarian call center customers on these curves. In the next section we try to describe these usage of applications and integrations, based on our personal experiences, 3rd party market surveys and other sources. These are to be taken rather as indicators, as the actual situation varies.

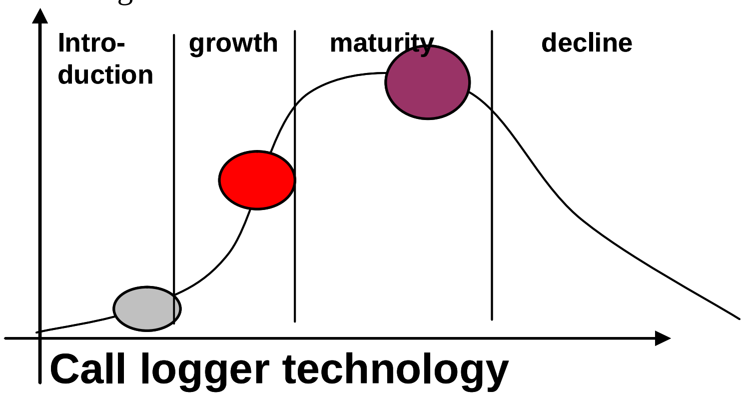
The „seat” term here means the concurently occupied agent position. If a call center has several shifts, we calculate the most positions occupied at any given time.
The large call centers are typically operates in the telco sector (wired and mobile telephone service providers, ISPs). The middle-sized call centers are typically operates in the utilities, smaller ISPs, banks, insurance companies, other financial institutions. The small call centers are in the retail and manufacturing industry

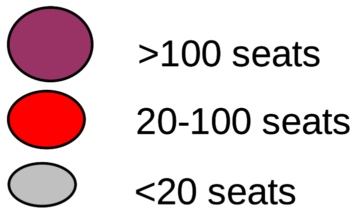
The general maturity status of the call centers and contact centers are the following:



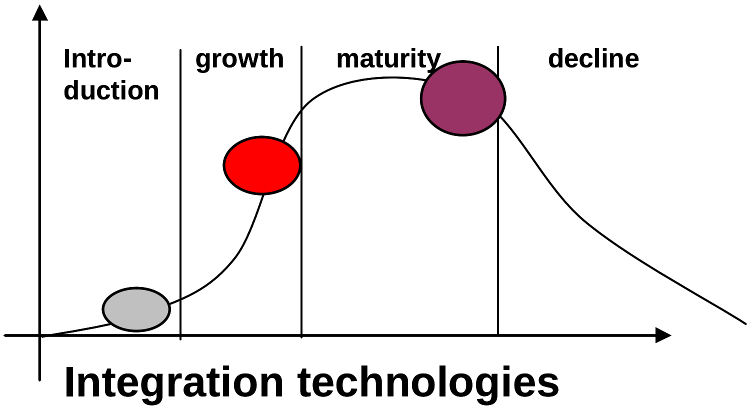
As we can see the big call centers are technologically matured, well equipped but the IP technology spreads slowly in all segments. The large call centers are not willing to replace their existing infrastructure to IP because of the uncertainity of the advantages of the new technology and because of the high investment costs, the medium and small call centers mainly because of the lack of suitable infrastructure and the high investment costs. However, new call centers are mostly IP-based in all segments.
The call logger technology follows the TDM/IP changes in the call centers generally. As the logger has a direct technology dependency on the technology the call center is used (i.e. when a tdm call center migrates to IP, usually the logger is being also replaced) the curves are very similar to the above. The only difference between the two, is that while large call center should have implemented loggers because of legal issues in the beginning, the smaller companies’ call centers use loggers mostly for agent and market surveys. This means, they

started to implement loggers nowadays, therefore more market activities can be experienced in this segment.





And finally the status of the integrations with back-office systems can be found below:



This is the current situation on the market, based on surveys, personal interviews. In the appendix, a list of the majority of the hungarian call centers including some remarks regarding the integrations and call-logger technologies.

6. FORECAST

Concerning the Hungarian private telecommunication market the users of the different segments of applications are the following ones:

	current line or port number	LINES or IP ports to be shipped (growth of new sales)			
Segment	2006	2007	2008	2009	2010
A) SME (<50 lines) TDM PBX	na	10%	10-13%	0%	-10%
B) SME (<50 lines) IP PBX	na	10%	10%	10-15%	12-20%
C) mid- and large comp. TDM PBX	na	2-5%	2-3%	-10%	-50%
D) mid- and large comp. IP PBX	~4.000	8-10%	8-12%	12-15%	12-15%
E) SME call centers (TDM and IP)	<1.000	10%	10%	10%	5%
F) mid- and large call centers (TDM and IP)	>10.000	10-15%	12-18%	20%	20%

- includes all the current and future possibilities of all kind of customers