

Lithuania's business services report

2017



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Preface

Lithuania has come a long way since 2009, when the first businesses began to arrive to set up their Global Business Service Centers. The intervening years have witnessed a surge in the sector, solidifying Lithuania's position as a go-to destination for business services in Northern and Central Eastern Europe. And behind this growth, Invest Lithuania has remained a constant, pushing the nation's value proposition as a prime location for global business services.

As the sector has matured, it has become increasingly diversified. Today the services it offers are truly global in scope, with more than 30 languages

spoken across the sector. And beyond language, the services themselves have become more complex and bespoke. What is more, the sector is truly future focused, with the level of in-house robotic process automation integration rising day by day. The bywords for the Lithuanian GBS sector are innovation and excellence across all its operations.

I hope that this, our third Global Business Report, will provide you with an insight into the sector as a whole. Moreover, I believe that it will go some way to explaining why as a growing hub for GBS, Lithuania is the perfect location for forward thinking business.

LAISVIS MAKULIS

HEAD OF BUSINESS SERVICES TEAM

ABOUT THE SURVEY

The data was collected over April and May 2017 by Invest Lithuania. 41 companies employing more than 12,000 professionals participated in the survey,

which accounts for 68% of all centers in the industry and 91% of its total labor force.

**COMPANIES PARTICIPATED
IN THE SURVEY**

41 →

**WHICH ACCOUNTS FOR NUMBER OF
ALL CENTERS**

68%

**NUMBER OF PROFESSIONALS
EMPLOYED BY THESE COMPANIES**

12,000 →

**% OF SECTOR'S TOTAL LABOR
FORCE**

91%

Industry overview

TOTAL POPULATION

2.9m

VILNIUS-KAUNAS HUB

POPULATION ¹

1.4m

YOUTH GROWTH ²

+10%

STUDENT POOL ³

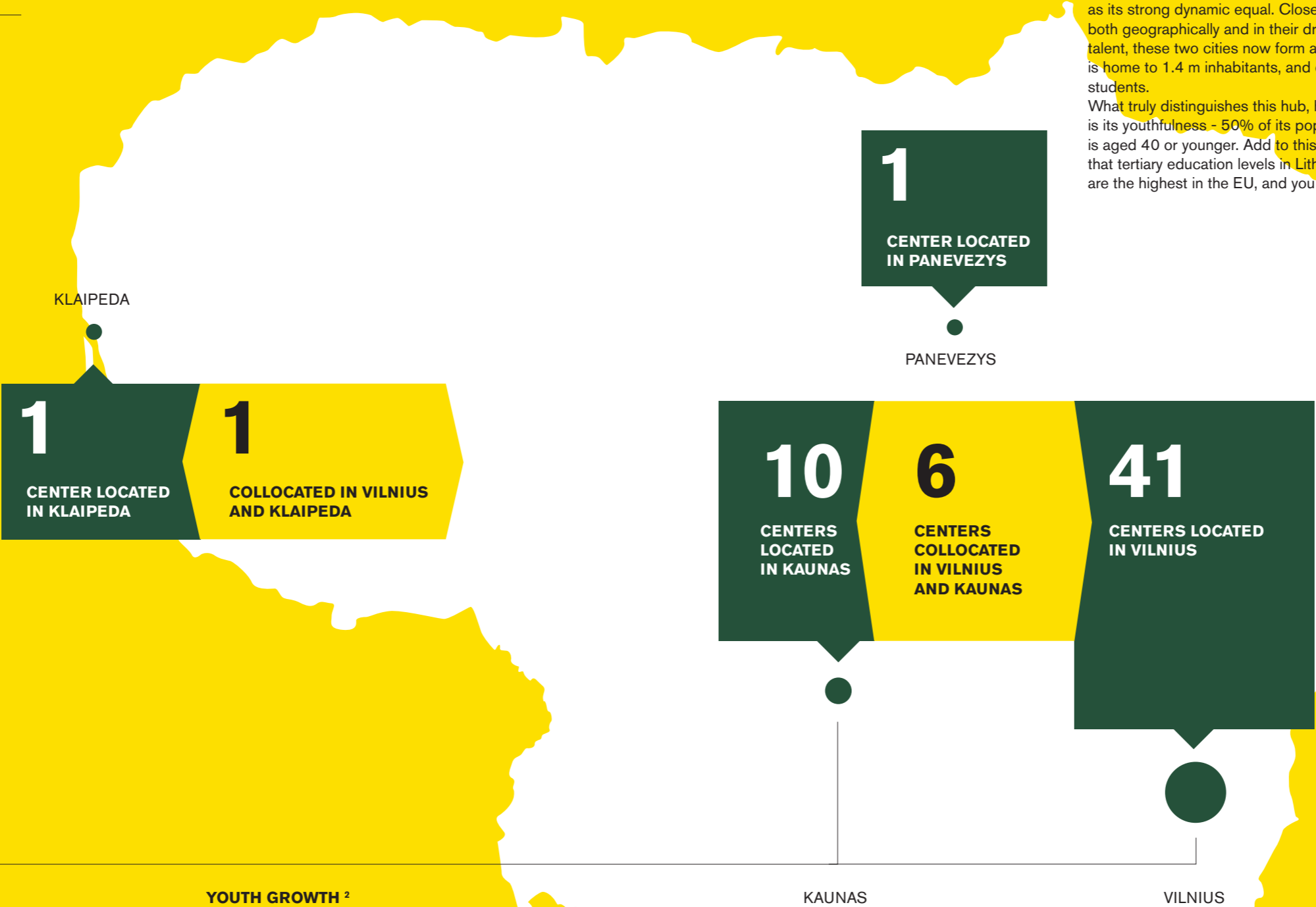
107k

Source 1: Statistics Lithuania, 2017

Source 2: Statistics Lithuania, 2012 – 2016, age group 25-34

Source 3: Ministry of Education and Science, 2015 – 2016

Location



1

CENTER LOCATED
IN PANEVEZYS

PANEVEZYS

10

CENTERS
LOCATED
IN KAUNAS

KAUNAS

6

CENTERS
COLLOCATED
IN VILNIUS
AND KAUNAS

41

CENTERS LOCATED
IN VILNIUS

VILNIUS

While Vilnius has been cementing its position as a center for Global Business Services, its sister city Kaunas has been fast emerging as its strong dynamic equal. Closely aligned, both geographically and in their drive and talent, these two cities now form a hub that is home to 1.4 m inhabitants, and over 100 k students. What truly distinguishes this hub, however, is its youthfulness - 50% of its population is aged 40 or younger. Add to this the fact that tertiary education levels in Lithuania are the highest in the EU, and you have the

perfect base on which to grow long term and successful GBS operations. In fact, it is Lithuania's concentration of young, professional and educated talent that has been the main driver for the sector. And as this talent has attracted major international companies, those companies in turn have attracted back native talent from abroad, as well as experienced professionals from other countries. At present, 11% of the total workforce in the sector is composed of repatriates and expats, and this number is growing.

THE BEST LOCATION FOR SHARED SERVICES AND OUTSOURCING IN CEE IN 2014, 2015, AND 2016

Vilnius



THE BEST EMERGING CITY FOR SHARED SERVICES AND OUTSOURCING IN CEE IN 2015

Kaunas



Source 4: CEE Shared Service and Outsourcing Awards

Sector growth

The story for the last five years has been one of strong and stable growth, with the number of centers operating in the country now reaching 60 in total. In fact, annual growth in terms of employment has remained at an annual rate of at least 15%.

This stable growth indicates that the market's capacity to absorb new players is still far from being reached. Not only have new players with recognizable brands found it easy to grow, but lesser known companies as well as established players continue to be able to scale their operations with ease.

NO. OF CENTERS ¹

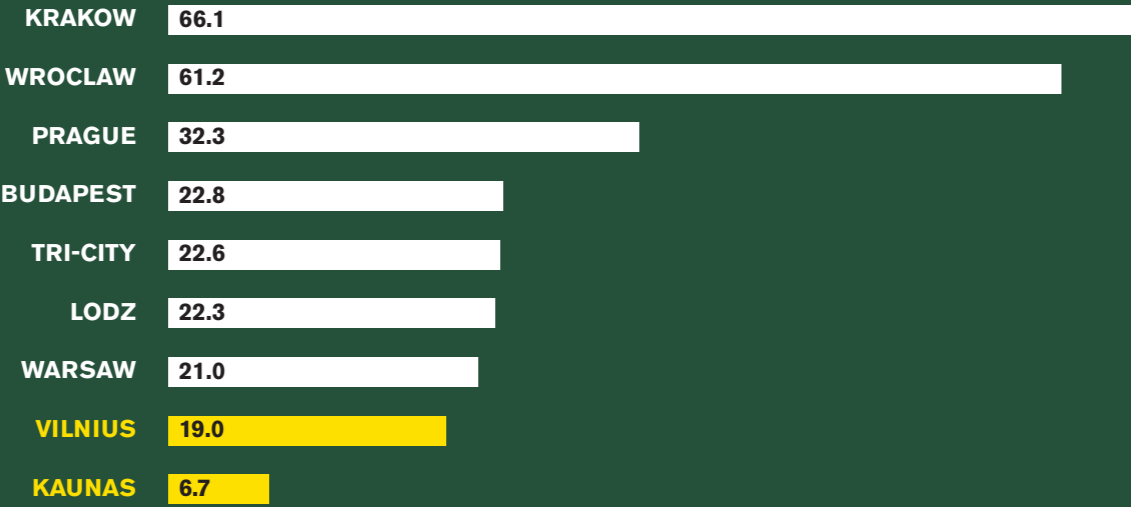


Saturation

The saturation rate is noticeably lower than other established GBS locations in CEE, despite the fact that the sector continues to experience robust growth in terms of the number of new centers being opened and new jobs being created. This delivers real value for new companies, as

it allows for quicker market entrance and set up, and makes it easier for those businesses to scale. On top of which, the resulting low attrition rate and lower rates of wage growth give those operations a secure and cost competitive foundation on which to build their business.

PEOPLE EMPLOYED IN BUSINESS SERVICE CENTERS PER 1,000 RESIDENTS ²



Source 1: Invest Lithuania, 2017
Source 2: Europe's Business Services Destinations, ABSL, 2016, National Statistics Departments

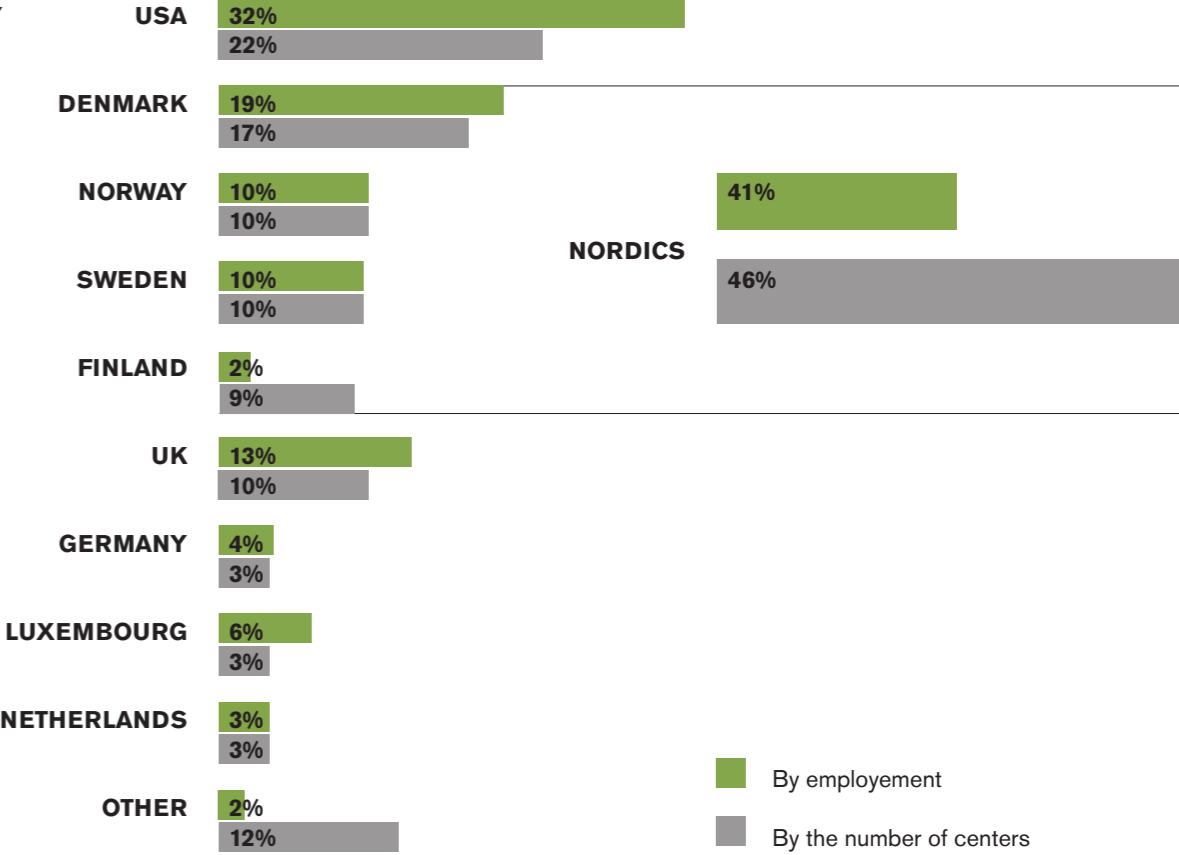
Sector overview

BY HQ LOCATION

Lithuania's GBS industry is distinguished from other CEE GBS locations by the strong presence of Nordic companies. Attracted by geographical and cultural proximity, Nordic language skills, and a young and educated talent pool, they comprise over 40% of all centers, employing almost half of the sector's total labor force.

If we look by country we will also see that the long-established Lithuanian-American bond is clearly pronounced in the global business service sector as well. US headquartered companies lead in the Lithuanian GBS sector in terms of both employment and the number of centers.

SHARE OF CENTERS BY LOCATION OF PARENT COMPANY ¹



BY SECTOR

There are 3 clearly dominant fields – IT, BIFS, and manufacturing, which together account for 76% of the industry. Lithuania is also in-

creasingly attracting attention from business-es in the fields of manufacturing, engineering and logistics.

SHARE OF CENTERS BY INDUSTRY OF PARENT COMPANY ¹

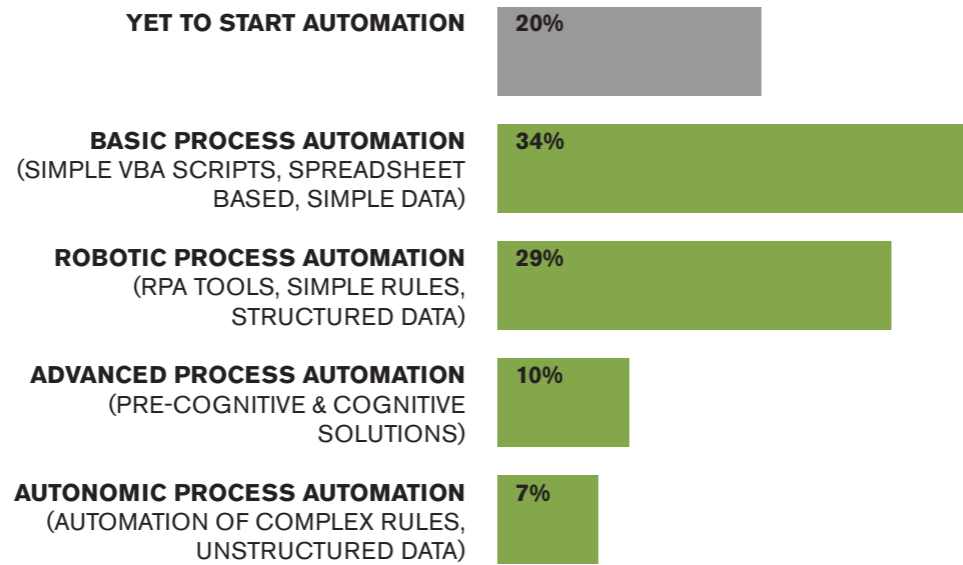


Source 1: Invest Lithuania, 2017

Lithuania's GBS sector has been quick to embrace innovations in RPA, with 4 out of 5 centers integrating some level of RPA within their processes. This future focused approach has been largely in-house led, with local talent designing their own in-company

processes. This has allowed businesses to maintain greater control over their own privacy, a real benefit that would not be possible were it not for the strong levels of competence in the local IT sector.

SHARE OF CENTERS BY LEVEL OF RPA



SHARE OF CENTERS DEVELOPING RPA SOLUTIONS IN HOUSE

58%

Survey findings



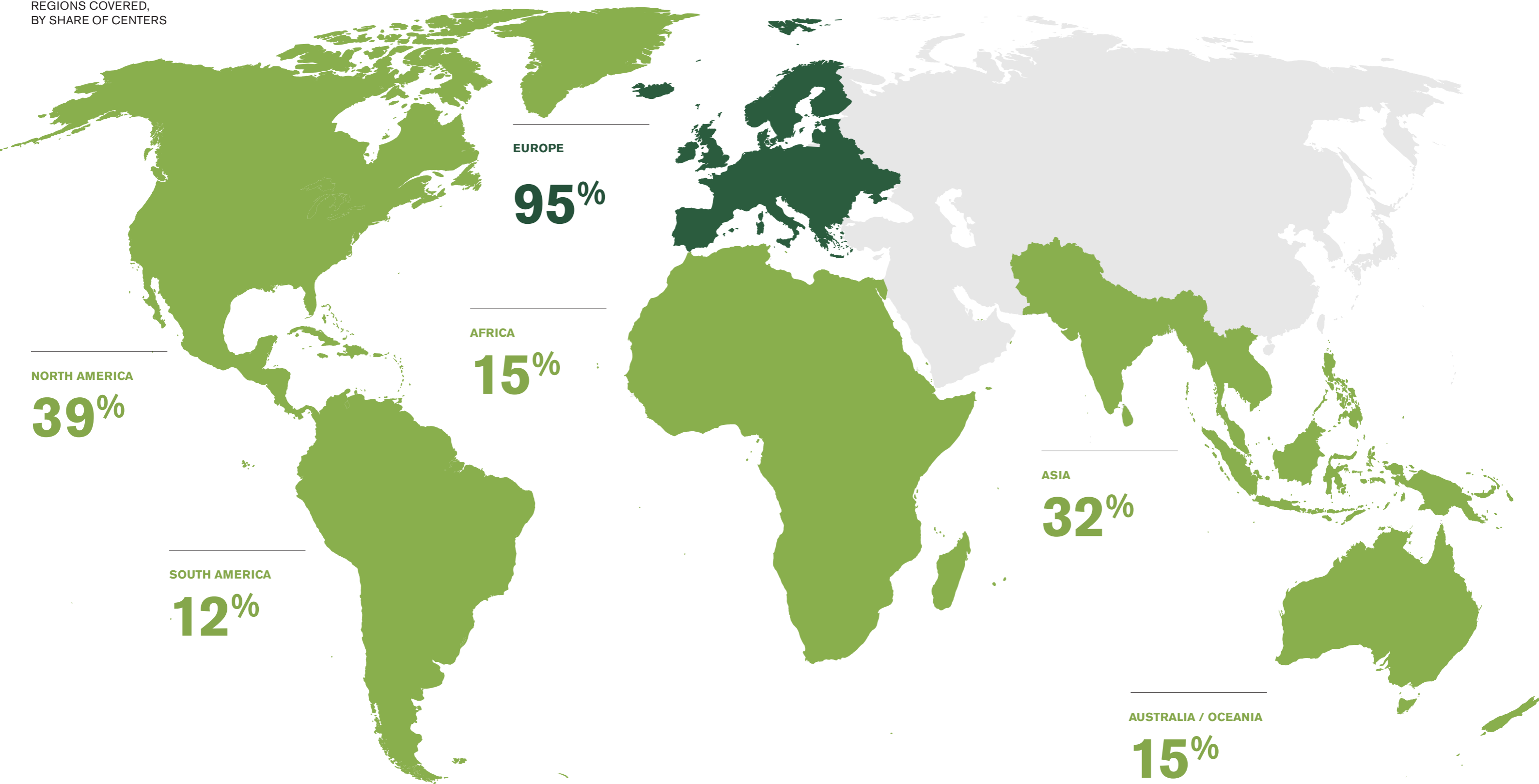
Quadrum Business Center in Vilnius

MARKETS COVERED

Europe is the main continent served by the Lithuanian GBS sector – with Northern Europe the most served. 90% of organizations offer services to this region. The local GBS sector is perfectly positioned

to observe the follow-the-sun principle. 39% of organizations serve North America, predominantly the United States, while more than 1/3 of all centers serve Asian locations.

REGIONS COVERED, BY SHARE OF CENTERS



EUROPE

95%

AFRICA

15%

NORTH AMERICA

39%

SOUTH AMERICA

12%

SERVE 10 OR MORE COUNTRIES

41%

SERVE 3 OR MORE REGIONS

27%

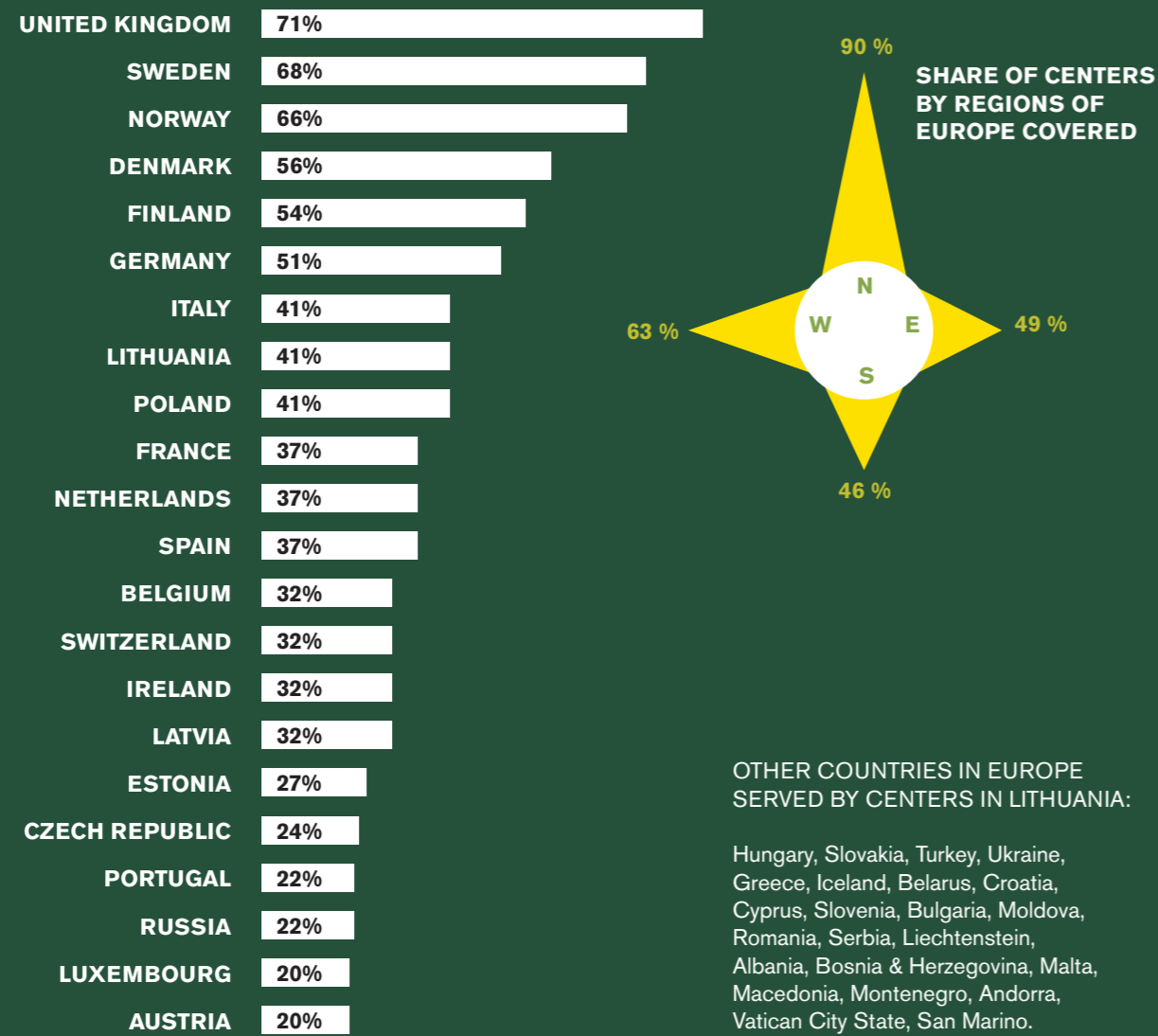
ASIA

32%

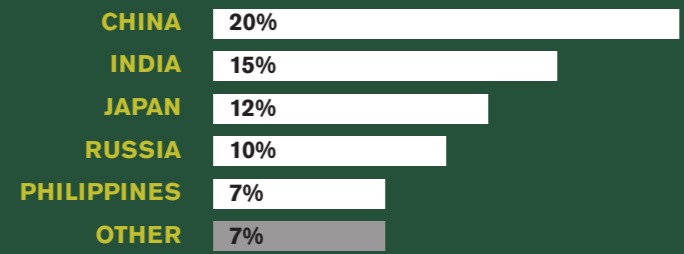
AUSTRALIA / OCEANIA

15%

SHARE OF CENTERS COVERING EUROPEAN COUNTRIES



SHARE OF CENTERS COVERING ASIAN COUNTRIES

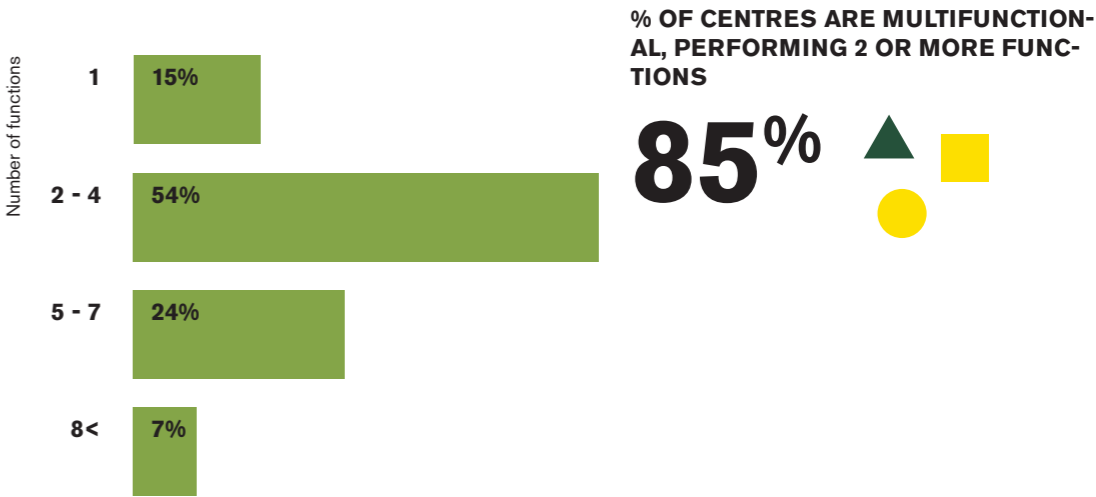


FUNCTIONS

Lithuania's GBS sector is almost exclusively multifunctional, meaning that centers here support at least two distinct lines of service. Newcomers now typically start with a multifunctional approach from the beginning of their GBS journey, while centers that have been operating in the country for some time almost always decide to broaden the range of their operations.

And as the industry matures, the scope of the services it provides expands. For example, procurement, legal and engineering services are becoming increasingly commonplace within the sector. The majority of centers in the sector are multifunctional, performing 2 or more distinct functions.

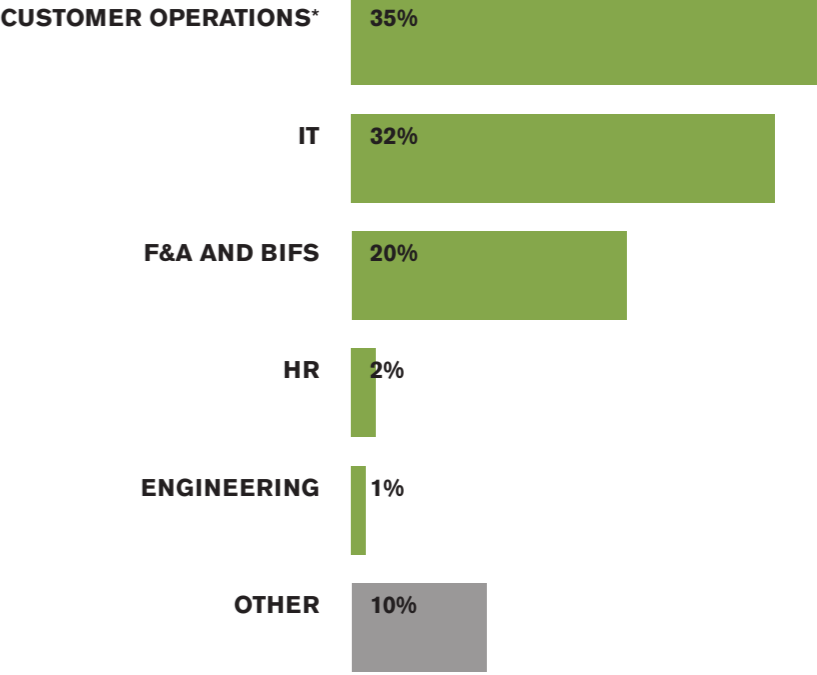
SHARE OF CENTERS BY NUMBER OF FUNCTIONS PERFORMED



EMPLOYEMENT

Customer operations, not only call center functions but also the broader scope of overall customer operations, account for the greatest share of total employment in the industry. This is closely followed by IT and finance operations, reflecting global trends in general. Other functions, such as engineering, procurement, and R&D, are rapidly gaining popularity in the sector.

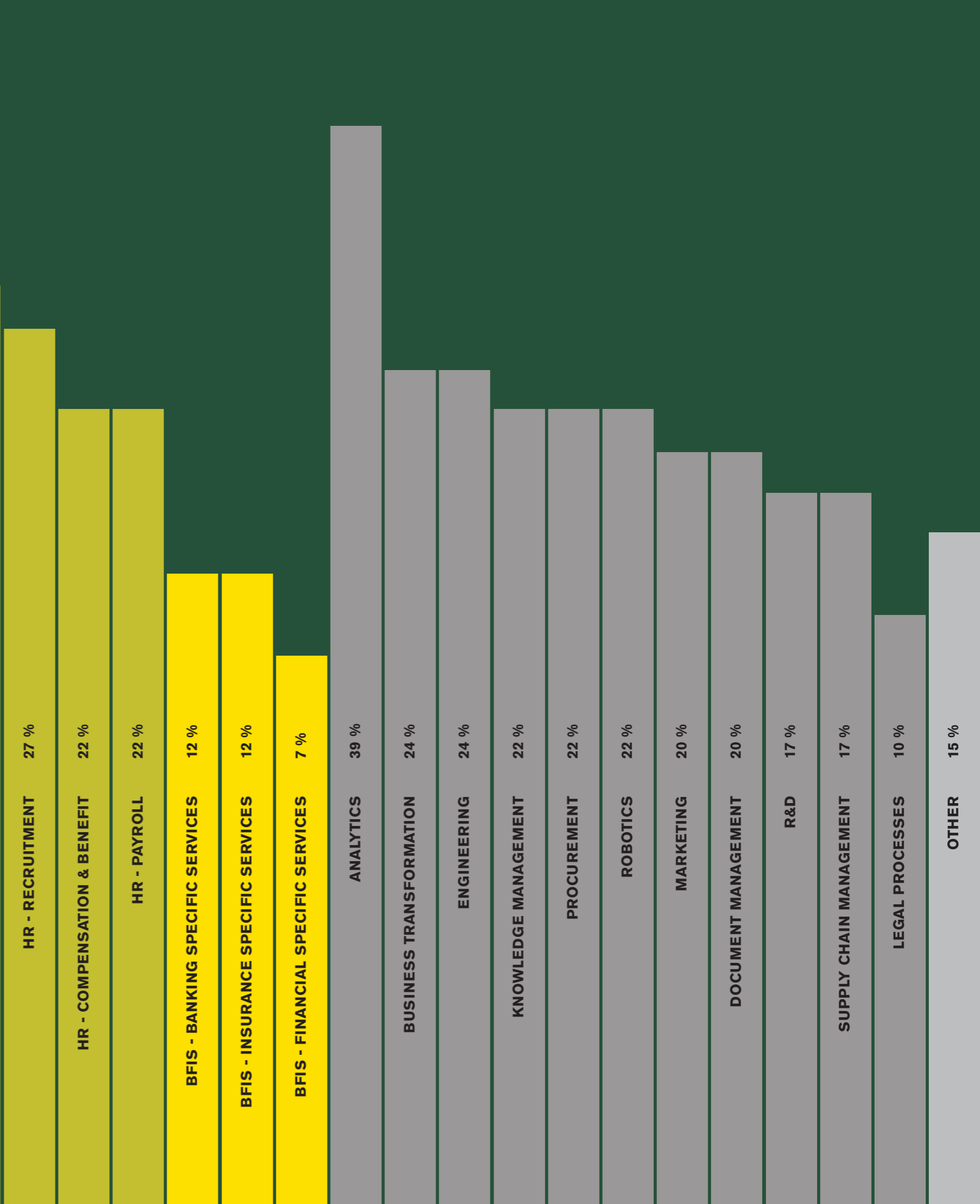
SHARE OF EMPLOYEES BY FUNCTION, %



*Customer operations cover not only call center functions but also the broader scope of overall customer operations.

Functions

SHARE OF CENTERS'
PERFORMING FUNCTION

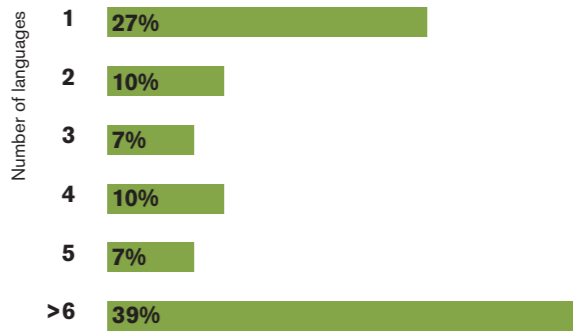


Languages used

The scope of languages used in centers continues to expand. Last year 32% of centers reported using 6 or more languages, while this year the share of such centers is up by 7 percentage points to 39%.

English remains the dominant foreign language, especially in centers with a focus on IT. Swedish, Norwegian, German, and Finnish have grown most in terms of popularity.

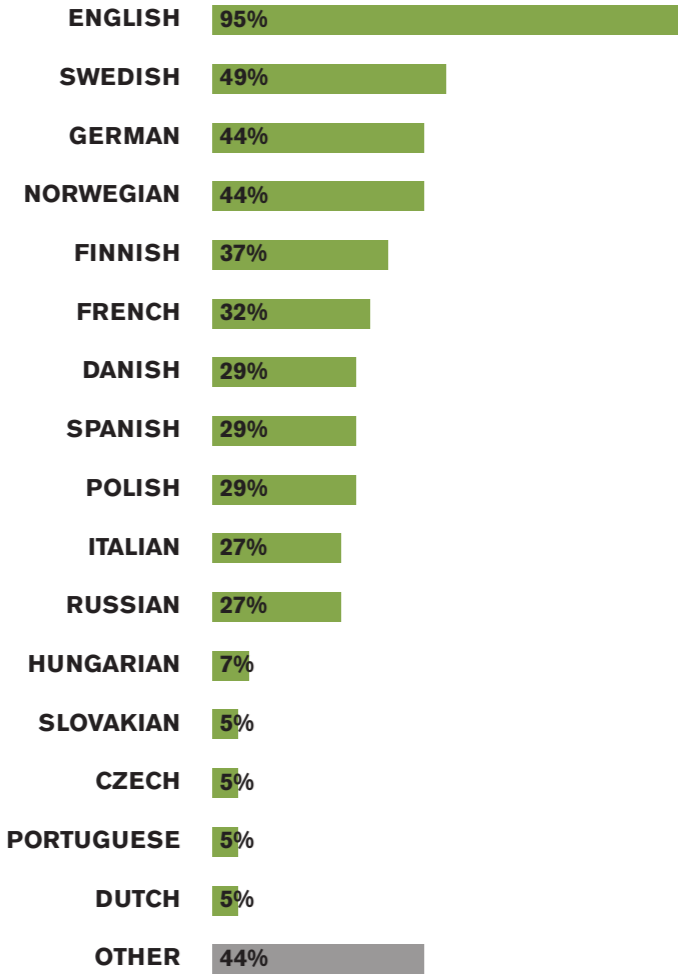
SHARE OF CENTERS BY NUMBER OF LANGUAGES SPOKEN



AVERAGE NUMBER OF LANGUAGES SPOKEN AT A CENTER



SHARE OF CENTERS BY LANGUAGE SPOKEN



THE LARGEST NUMBER OF LANGUAGES USED IN A SINGLE CENTER



CENTERS SERVING IN SCANDINAVIAN LANGUAGES ALONE

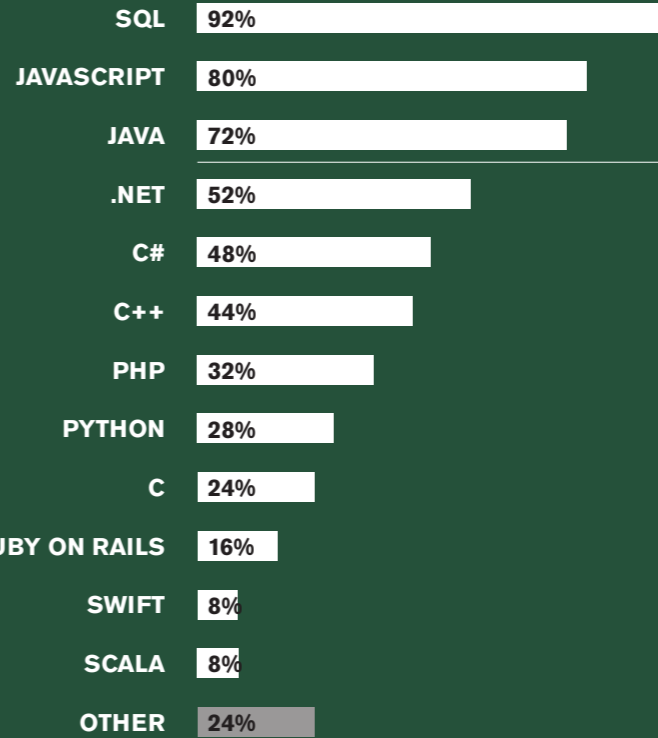


Programing languages

With a tradition for excellence in technology, it is no surprise that Lithuanian talent is helping the local GBS industry to innovate and improve. From helping financial companies to embrace fintech, to creating solutions that allow manufacturing companies to digitalize their production and distribution processes, Lithuanian talent excels in keeping business ahead of the curve. 73% of centers provide IT services and just as many are engaged in developmental activities, with all utilizing a number of

programing languages across their daily processes. An average center uses at least 5 different programing languages, with the number of languages used in some centers exceeding 10. Historically, Lithuania has stronger backend development skills, although in step with increasing market demand, software development and development for mobile devices are also growing.

SHARE OF CENTERS BY PROGRAMING LANGUAGE USED



% OF CENTERS USING THESE 3 PROGRAMING LANGUAGES TOGETHER



Attrition rate and recruitment timescales

SURVEY FINDINGS

20

ATTRITION

With a relatively low saturation rate and with young Lithuanians continuing to rank GBS centers among their most desired employers, centers here are not only able to ramp up quickly, but also retain their talent longer. 42% of centers reported an attrition rate that is equal to or lower than 10%.

Customer contact centers reported higher attrition rates as they are concentrated on employing fresh talent. These centers are seen as a great gateway position into a professional career for graduates or students still in university.

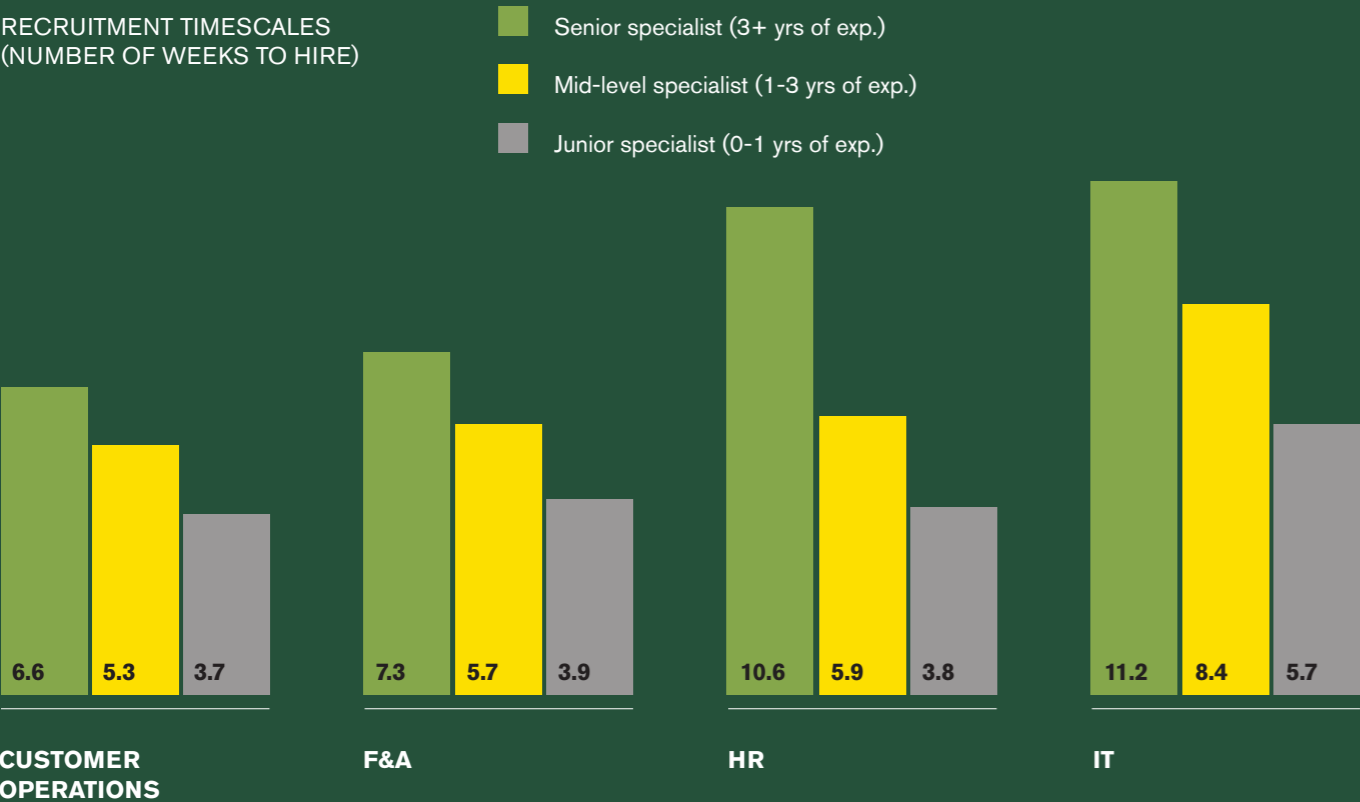
SHARE OF CENTERS BY ATTRITION RATE



RECRUITMENT

The time needed to hire a junior specialist has remained relatively unchanged within the period since our last survey. From posting a job ad to signing a contract takes on average slightly less than a month for non-IT fields, while the requirement for an IT skillset expands this timeframe by around 2 weeks. Customer service skills are the easiest to source in the labor market, while senior IT specialists pose the largest challenge.

RECRUITMENT TIMESCALES (NUMBER OF WEEKS TO HIRE)



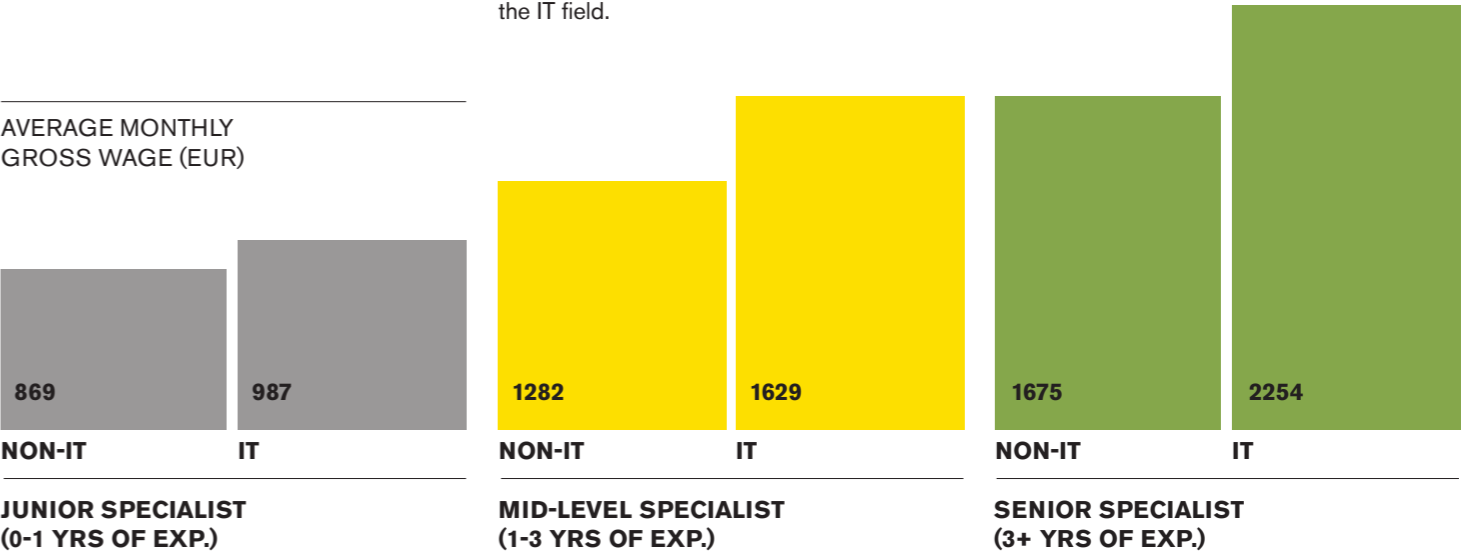
Wage and wage growth

SURVEY FINDINGS

21

Entrance level wages do not exceed EUR 1,000 per month (gross). Commonly, there are higher expectations for wage rises within the IT field.

AVERAGE MONTHLY GROSS WAGE (EUR)



AVERAGE WAGE GROWTH

Wage growth for non-IT specialists was slower than expected last year. In 2015 wages for non-IT specialists grew on average by 5.8% and last year the growth was projected to reach 6.2%. Data shows, however, that the actual rate was 0.5 percentage points lower, reaching 5.7%.

In 2016, average wage growth for IT specialists reached 7.9%. This wage growth, however, is expected to subside in 2017 and fall to 6.7%.



ADDITIONAL INFO

Average national wage growth in Lithuania over 2017-2021 is expected to be just over 4% annually, meaning that Lithuania is likely to maintain its cost competitive edge over the majority of other typical SSC/BPO locations in Eastern Europe and Asia.

AVERAGE NATIONAL WAGE GROWTH | 2017-2021



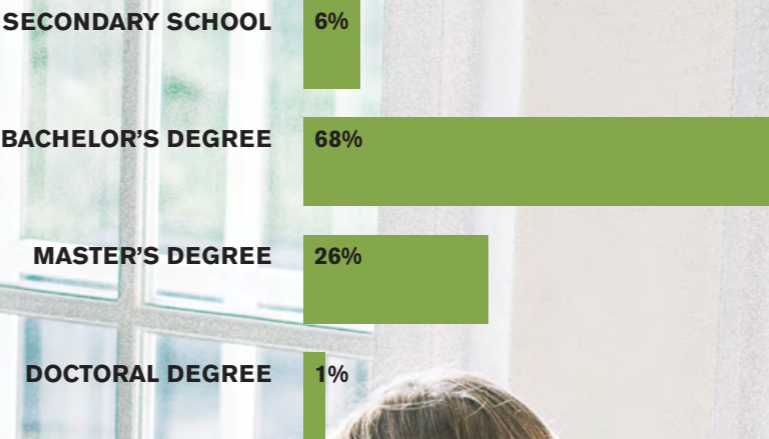
Source 1: fDi Intelligence based on Economist Intelligence Unit, 2017

Education level

Lithuania's GBS sector remains an attractive workplace for educated specialists and the share of employees with higher education diplomas continues to be well above 90%, increasing somewhat on last year's figures. More than 1/4 of all employees have a

Master's or higher degree. These statistics provide compelling evidence that the Global Business Sector continues to be the sector of choice for the highest rung of local talent.

SHARE OF EMPLOYEES BY HIGHEST LEVEL OF EDUCATION



% OF ALL EMPLOYEES WITH TERTIARY EDUCATION

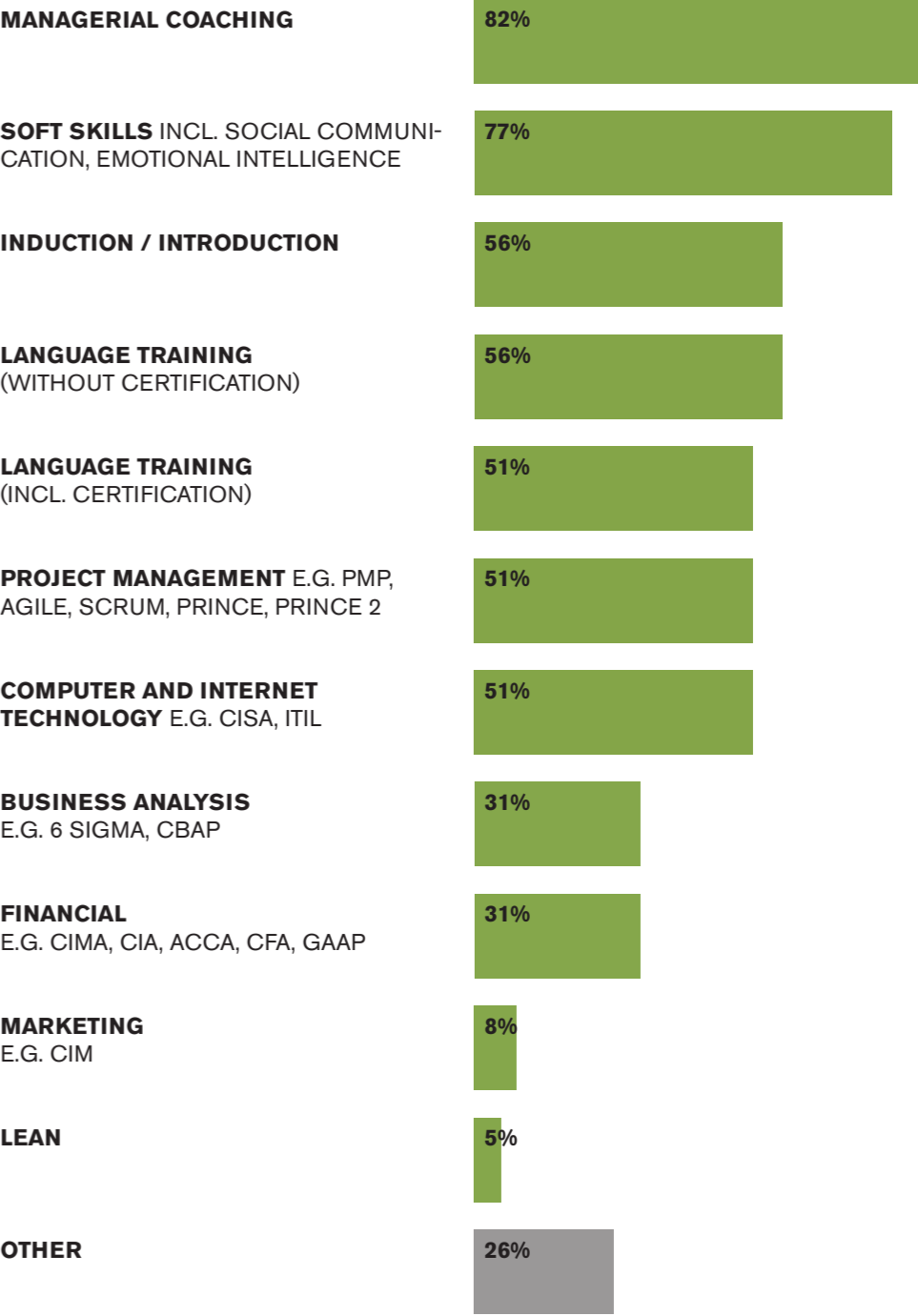
94%

Training

Though employees are very well educated, they are still keen to obtain new skills. This does not go unnoticed – the majority of centers provide a variety of training programs as a staff benefit. Training continues to be seen as a great

employee retainment strategy – companies investing in their talent are more likely to secure employee loyalty and higher retention rates.

SHARE OF CENTERS BY TRAINING PROVIDED

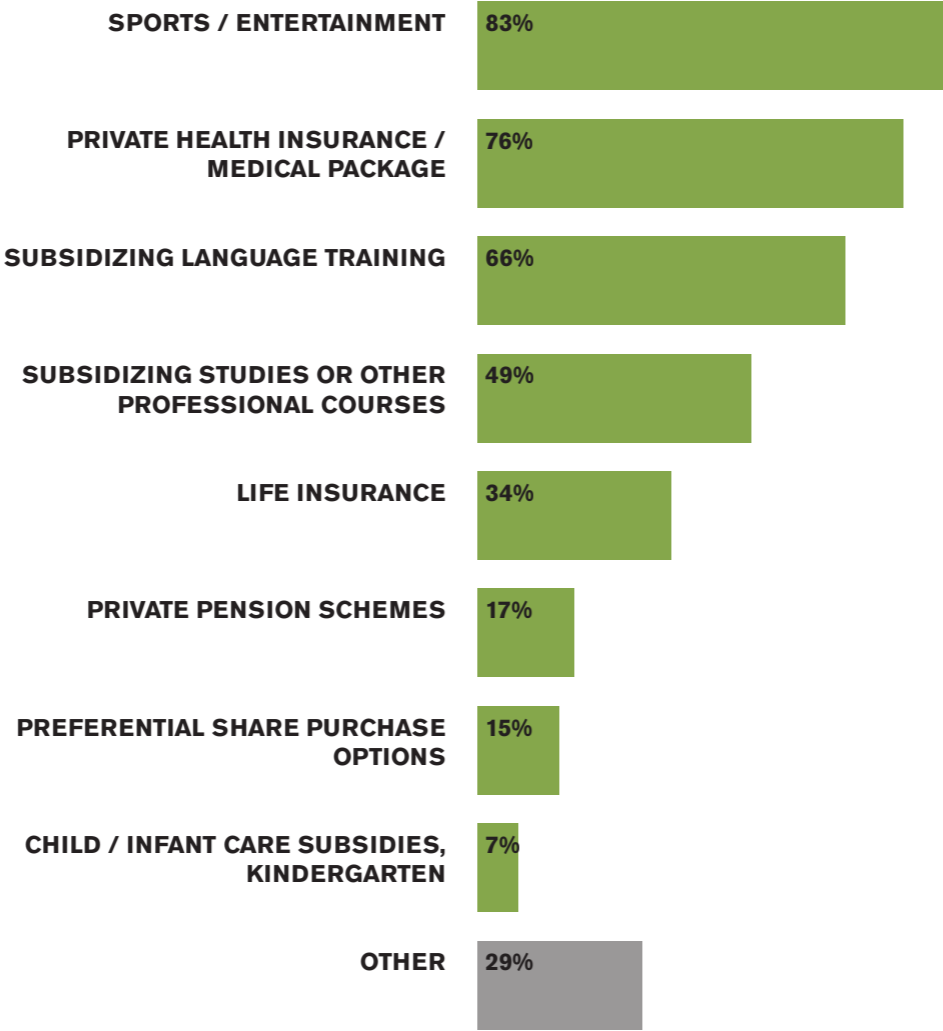


Benefits

The average age of employees in the global business services industry in Lithuania is 29, the age group of the so-called Y generation. There is evidence that, in line with current Y generation theory, people from this age group place greater value on the working environ-

ment as a whole rather than on salary alone. This accounts for why Sports and Entertainment & Private Health Insurance have almost become industry standard.

SHARE OF CENTERS BY BENEFITS PROVIDED

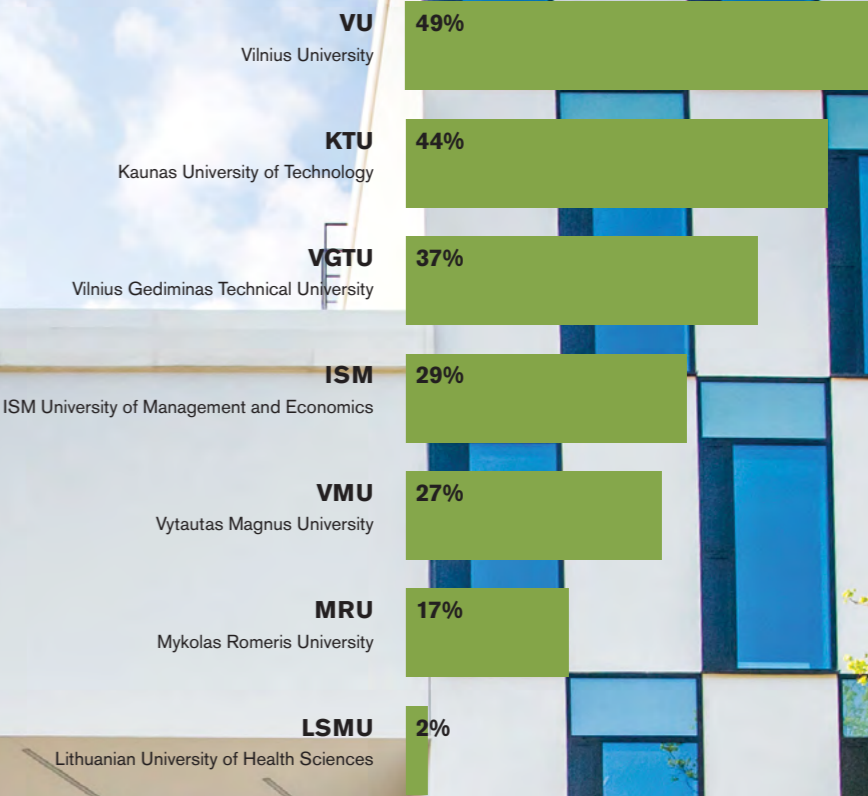


Cooperation with educational institutions

Cooperation between universities and businesses continues to rise – with the two working in unison to develop future talent. The ways in which companies interact with universities are also becoming more diverse and multiform – companies are creating separate study programs aimed at developing key skills in their field of business, bringing

lecturers to universities, and providing additional lectures to students, etc. This brings great value to companies and universities alike, as such cross cooperation guarantees that local talent is able to meet the demands of a maturing sector.

SHARE OF CENTERS COOPERATING WITH UNIVERSITIES



Real estate

The Global Business Services sector in Lithuania tends to favor easily accessible central locations for the establishment of its offices, usually located within commercial business districts.

The current pipeline suggests that in Vilnius alone in the next two years more than 150 000 Sqm of new GLA will be commissioned. If Vilnius is leading the Baltic states in terms of investment in real estate, Kaunas – the nation's second largest city – is also experiencing growth in the CRE market. It is projected that there will be around 40 000 Sqm of new, high quality GLA commissioned in Kaunas in 2017, with an equal amount being added in 2018.

This increased level of construction is also reflected in the rise of average vacancy rates in Vilnius and Kaunas, which in 2016 were 6.3% and 7.3% respectively. These levels are projected to remain at a similar rate in 2017.

Asking rates for office space are projected to remain stable or even decrease slightly due to increasing competition between developers. In 2016 A class office space in Vilnius cost 13.5 - 16.5 EUR/Sqm/month excluding VAT and utility costs, while in Kaunas an A class office space cost from 10 to 14.5 EUR/Sqm/month.

While developers usually offer an open floor plate with a standard fit-out, extra funds are now being allocated for customized fit-outs if they are needed.

It is also noticeable that tenants place more emphasis on solutions which increase employee productivity and office quality of life, such as natural light, recreational areas, green spaces, and an additional surrounding infrastructure. The sector offers many examples of offices wherein the design and construction of unique office spaces has been integrated into employer branding to such an extent that it has had a direct positive impact on employee retention rates.

OVER 140,000 SQM OF NEW SUPPLY SCHEDULED FOR 2017-2018

140k m²

NEW A CLASS BUILDINGS SCHEDULED TO INCREASE A CLASS SUPPLY BY 10% IN 2017

+10%

ONE OF THE LOWEST PRIME OFFICE RENTAL PRICES IN THE REGION ¹

€

Source 1: Newsec, 2017

PRIME OFFICE RENT COSTS



Green Hall 2 Business Center in Vilnius



River Hall Business Center in Kaunas

PRIME RENT
1 SQM / MONTH¹

KAUNAS

12€

VILNIUS

15€

STOCKHOLM

56€

CENTRAL LONDON

158€

Source 1: CBRE, 2017

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