Lithuania's business services report

2018

Invest Lithuania

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Preface

Dear Ladies and Gentlemen,

It is a great honor and pleasure to introduce what is already our 4th Lithuanian Business Services Report, in which we present and describe the Global Business Services industry in Lithuania.

2017 was a great year for the GBS sector with 1,600 new positions created, 17% sector growth, and a 12.5% increase in the number of employees.

A number of key trends emerged, indicating that the Lithuanian GBS sector has hit real maturity. Its profile became more global in 2017, with Western European companies increasing their market share. Although the Scandinavian market still retains a significant presence, in 2017 French and German became the leading spoken languages in centers after English.

It is also becoming evident that the main value driver of the Lithuanian GBS sector is its ability to offer companies the skills and competences needed to deliver a diverse set of functions and services under one roof. Businesses are increasingly turning to Lithuania as a destination of choice for centers supporting high-end projects and functions, and for the establishment of Centers of Excellence in certain fields, such as RPA.

More than this, the desire and capacity to innovate and improve processes using the latest technology was very pronounced in our findings. Almost half of the GBS centers we surveyed are actively developing RPA solutions themselves (48%), while 47% of GBS centers already use advanced RPA solutions. In fact, 31 robots are deployed on average per GBS center in Lithuania.

We trust this report will provide a valuable insight into our sector as a whole, and demonstrate why Lithuania is the ideal location for forward-thinking businesses.

LAISVIS MAKULIS
Head of Business Services Team

About the survey

Data was collected during April and May 2018 by Invest Lithuania.

46 companies employing nearly 13,000 professionals participated in the survey, which accounts for 66% of all centers in the industry and 86% of its total labor force.

Survey data gathered from

66%
OF ALL CENTERS

86%
OF THE TOTAL LABOR FORCE IN THE INDUSTRY

Danske Bank Group Lithuania office in Vilnius

INDUSTRY OVERVIEW

1 / # Location

TOTAL POPULATION

2.8M

800K
VILNIUS POPULATION

560K
KAUNAS POPULATION

320K
KLAIPEDA POPULATION

Source: Statistics Lithuania, 2018

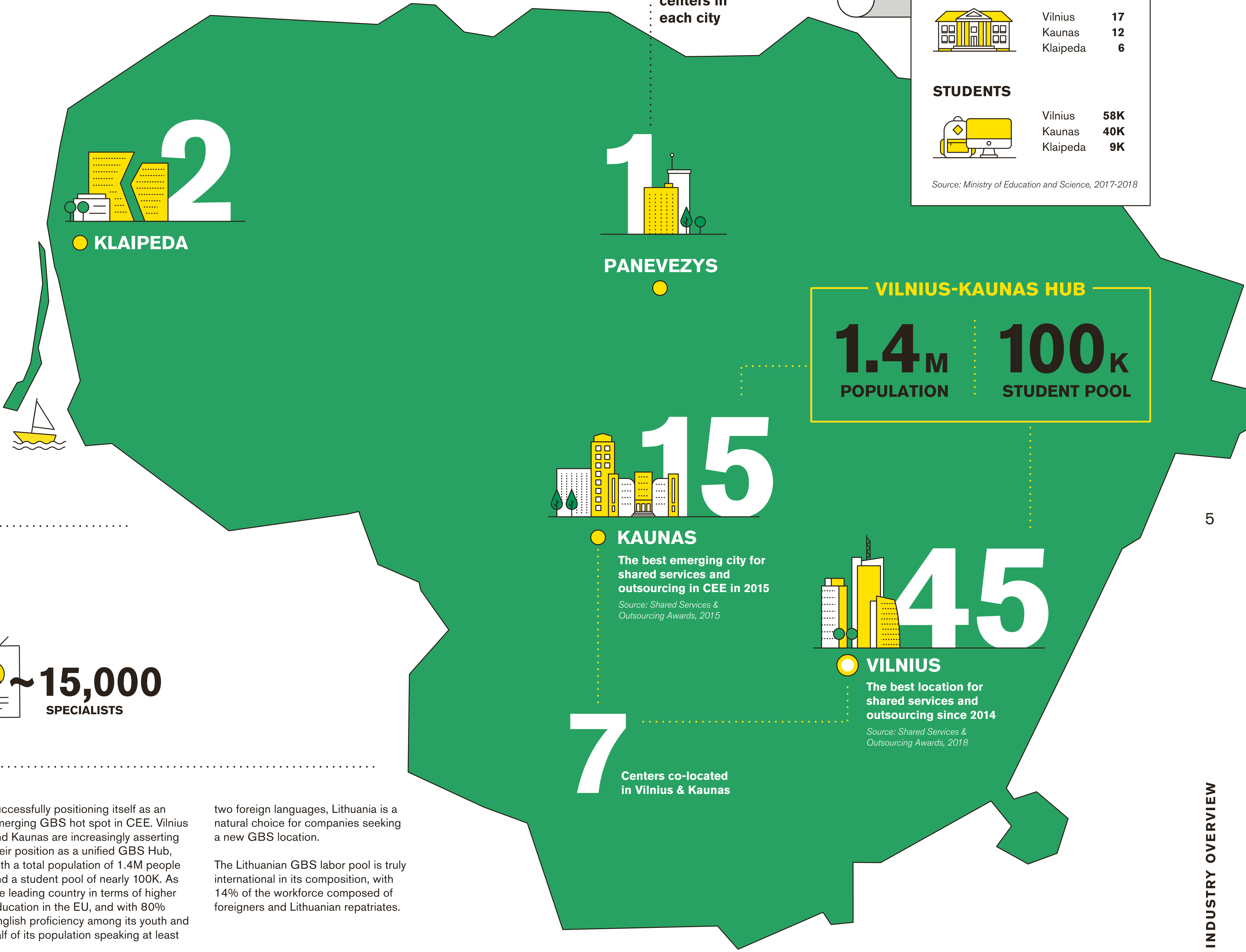
TOTAL SIZE OF THE GBS INDUSTRY

70
GBS CENTERS

~15,000
SPECIALISTS

In 2017 the Global Business Services industry in Lithuania grew steadily, both in the number of jobs created and the scope of its operations. At the beginning of 2018, Lithuania's GBS sector consisted of 70 GBS centers, employing approximately 15,000 specialists. While Vilnius remains the first choice for most investors, Kaunas has demonstrated steady growth, successfully positioning itself as an emerging GBS hot spot in CEE. Vilnius and Kaunas are increasingly asserting their position as a unified GBS Hub, with a total population of 1.4M people and a student pool of nearly 100K. As the leading country in terms of higher education in the EU, and with 80% English proficiency among its youth and half of its population speaking at least two foreign languages, Lithuania is a natural choice for companies seeking a new GBS location.

The Lithuanian GBS labor pool is truly international in its composition, with 14% of the workforce composed of foreigners and Lithuanian repatriates.



UNIVERSITIES & COLLEGES

Vilnius	17
Kaunas	12
Klaipeda	6

STUDENTS

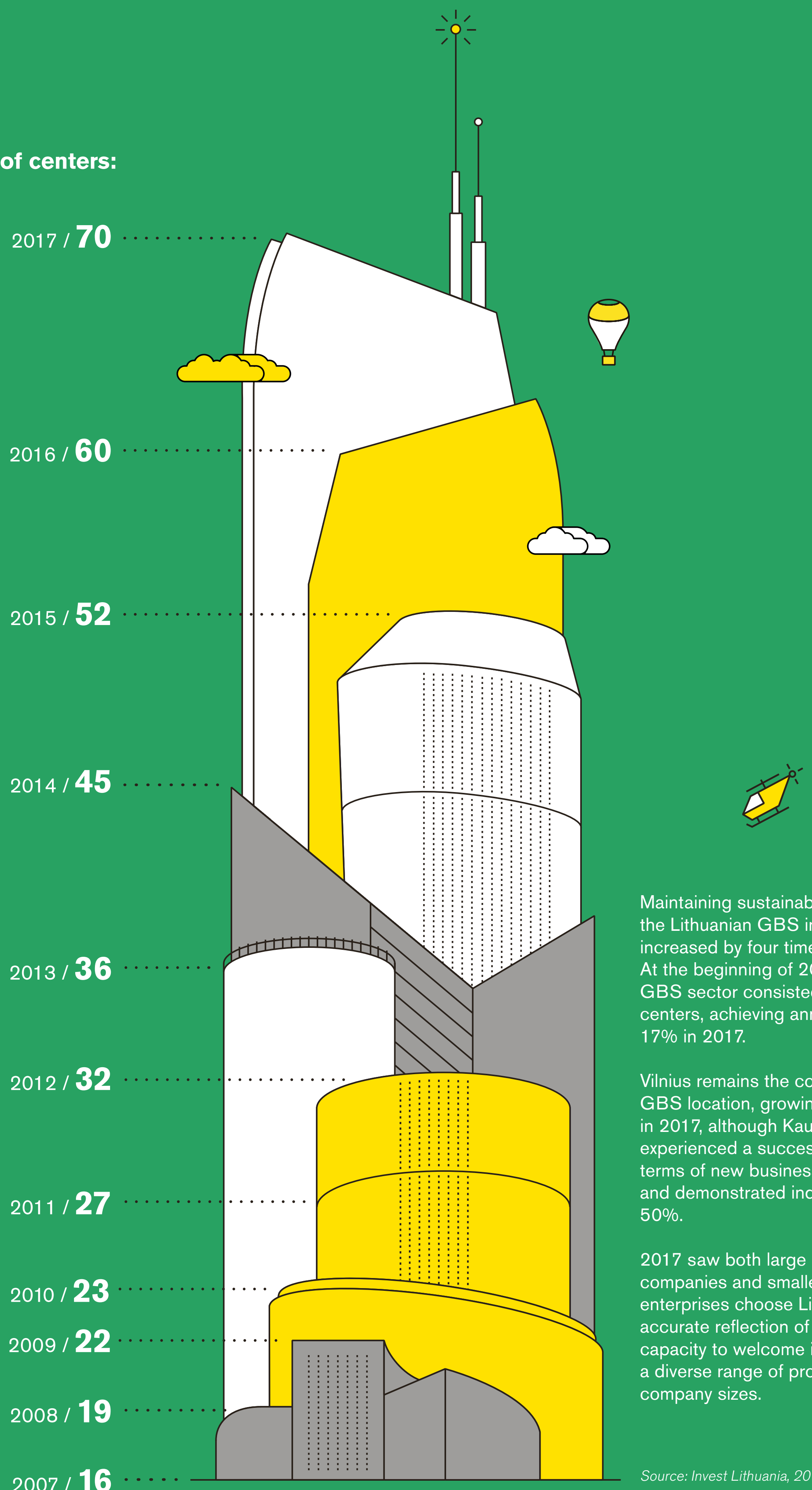
Vilnius	58K
Kaunas	40K
Klaipeda	9K

Source: Ministry of Education and Science, 2017-2018

INDUSTRY OVERVIEW

2 / Sector growth

Number of centers:



Maintaining sustainable growth, the Lithuanian GBS industry has increased by four times since 2007. At the beginning of 2018, Lithuania's GBS sector consisted of 70 GBS centers, achieving annual growth of 17% in 2017.

Vilnius remains the country's main GBS location, growing by 10% in 2017, although Kaunas also experienced a successful year in terms of new business attraction, and demonstrated industry growth of 50%.

2017 saw both large global companies and smaller niche enterprises choose Lithuania, an accurate reflection of the country's capacity to welcome investors from a diverse range of profiles and company sizes.

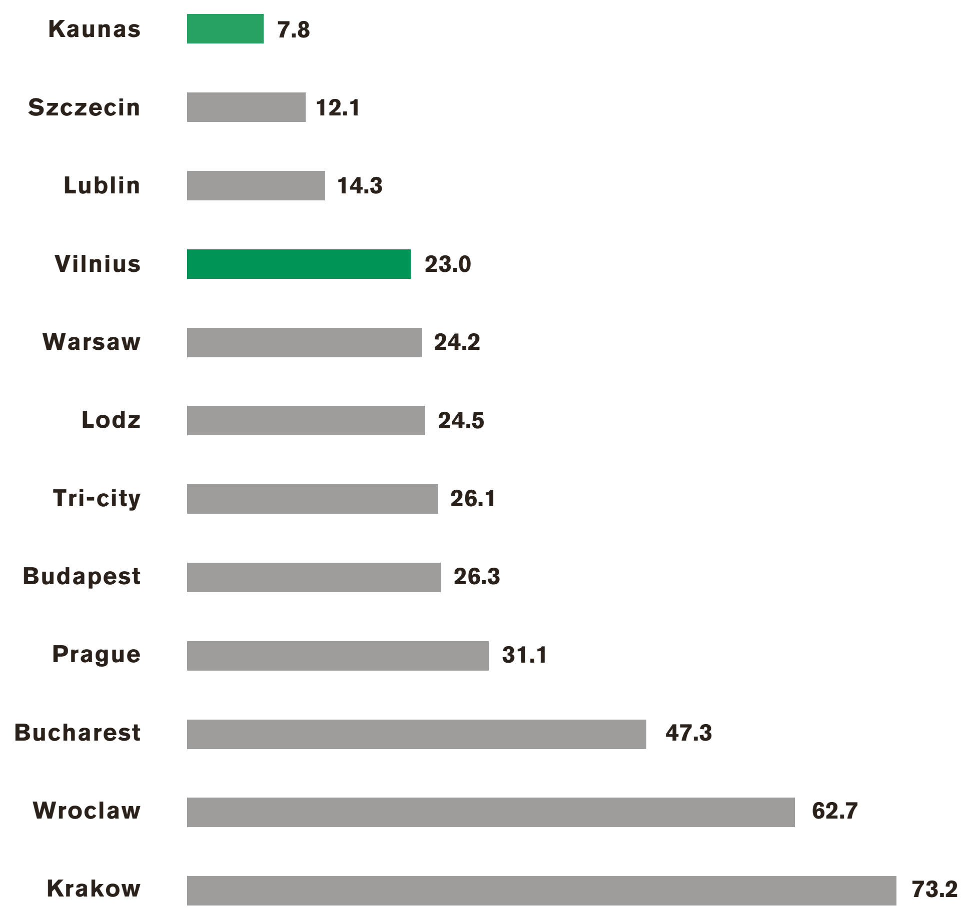
Source: Invest Lithuania, 2018

3 / Saturation

The saturation rate in Lithuania remains lower than in other established GBS locations in CEE, making it a favorable location for investors conducting location assessment. The growing number of companies starting operations in Lithuania and increasing their scope also provides ample evidence that this low saturation is being leveraged by global businesses looking to secure sustainable growth.

This low level of saturation enables new investors to enter and scale up in new markets quickly and easily. Moreover, in the long term low saturation creates a favorable environment for a lower attrition rate and sustainable wage growth in the industry.

People employed in Global Business Service centers per 1,000 residents:



Sources: Business Services Sector in Poland 2017,
Business Services Sector in Czech Republic 2017,
Hungarian Shared Services and Outsourcing insights 2017,
ABSL Outsourcing Industry Report 2017,
National Statistics Departments

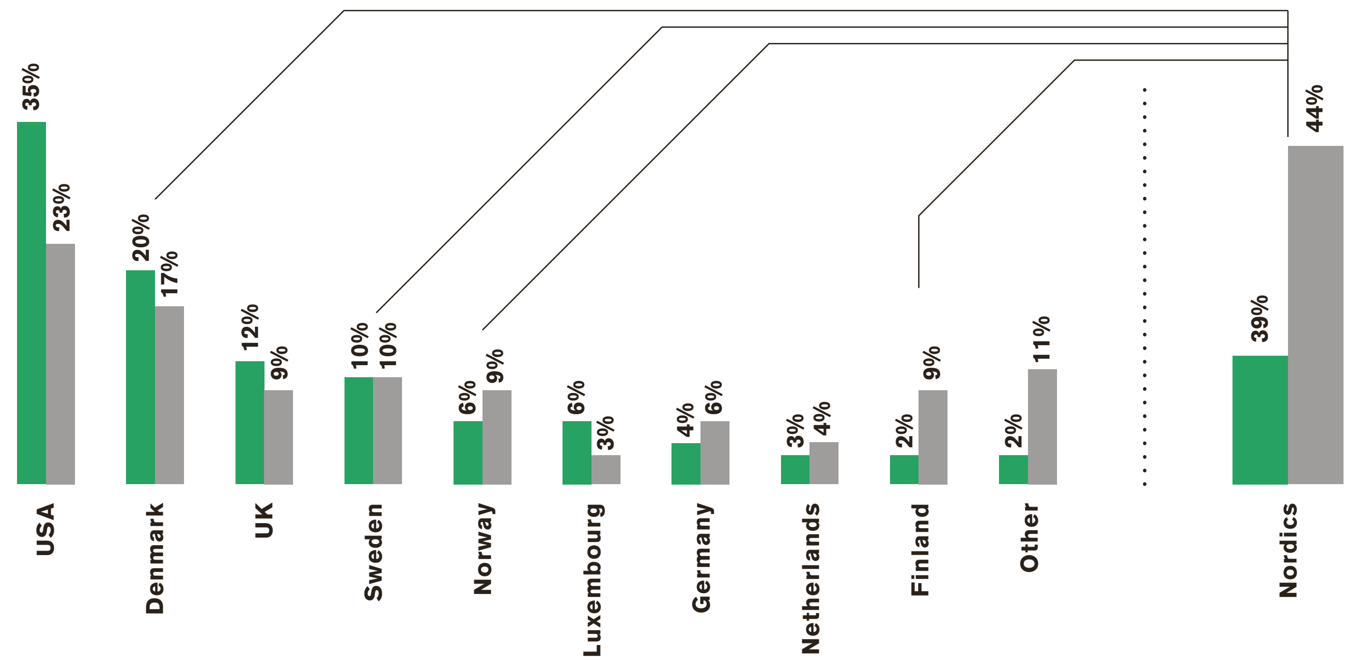
Sector overview

■ By employment
■ By number of centers

By HQ location

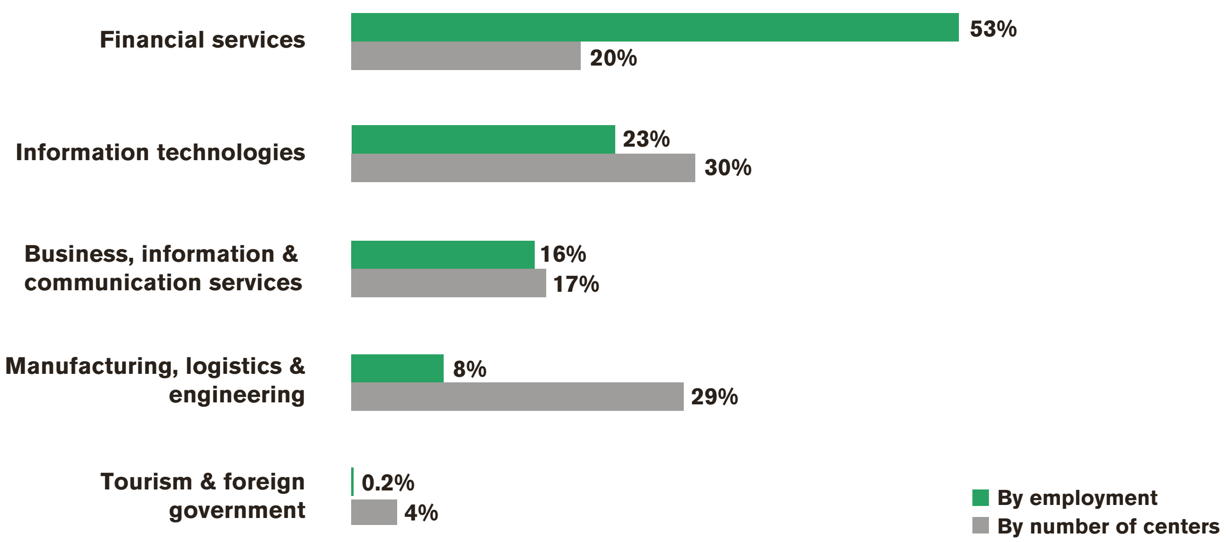
The Lithuanian GBS industry is highly impacted by its close geographical and cultural ties with the Scandinavia region. Altogether, Nordic-owned companies comprise nearly half (44%) of all GBS centers in Lithuania. Lithuania's proven Nordic language skills, business mindset, and similar working culture have made it the smart choice for Nordic investors, who currently employ 39% of the total GBS labor pool.

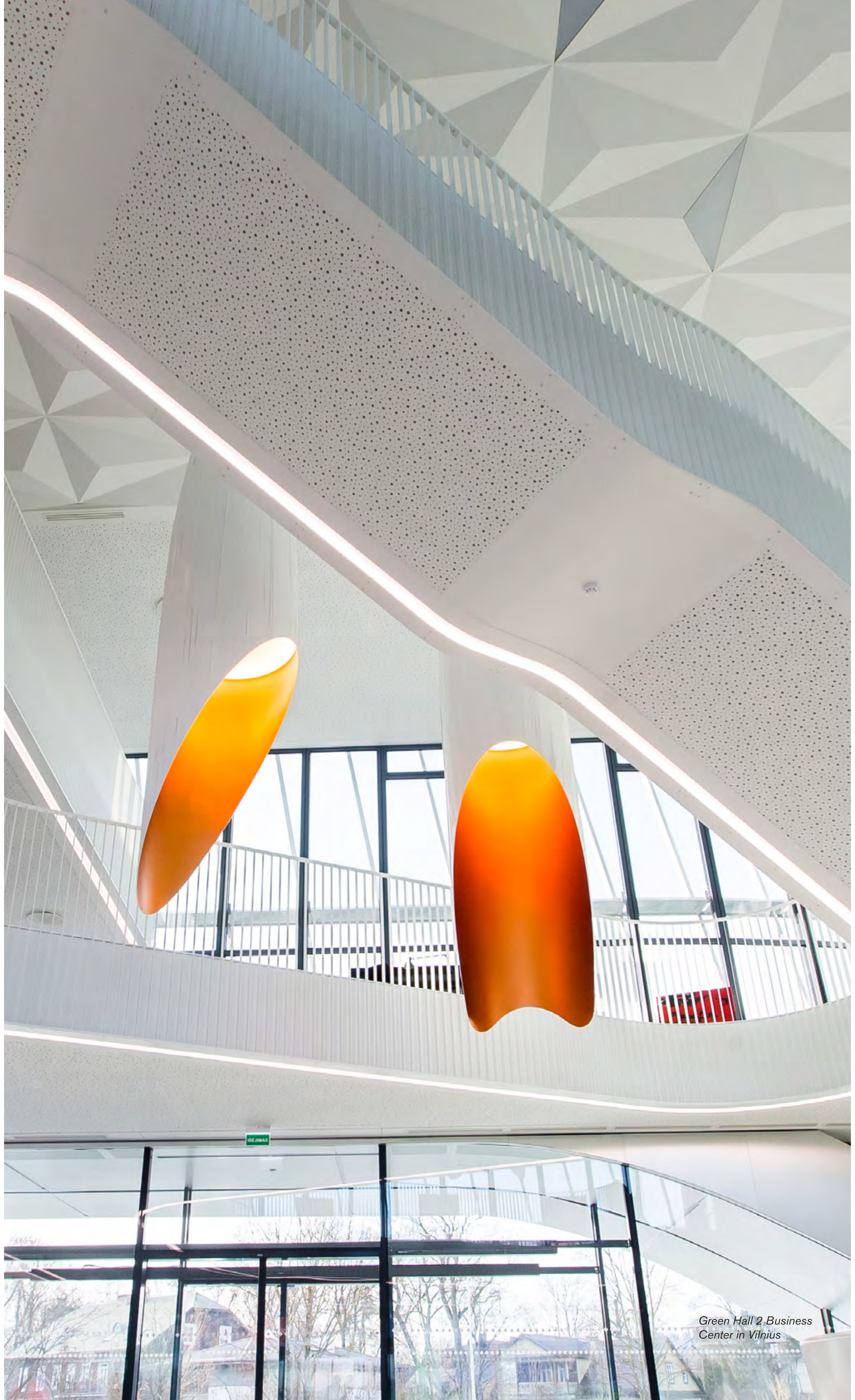
The US, meanwhile, remains the leading single investor in Lithuania, employing 35% of the industry.



By sector

The Lithuanian GBS industry is dominated by investors from three main sectors. GBS centers established by financial services companies currently employ more than half of the total workforce and account for 20% of all centers. In recent years, the Lithuanian GBS industry has experienced strong growth in the number of centers established by manufacturing, logistics and engineering companies, which now account for nearly one-third of all GBS centers in the industry.





Green Hall 2 Business Center in Vilnius

5 /
Markets covered

Regions covered by share of centers:

Europe remains the key market served by Lithuanian GBS centers, with the strongest focus given to Scandinavia – 80% of centers provide services to this region. The Lithuanian GBS sector is well positioned and developed to serve as a truly global base that ensures the provision of smooth and effective support.

26% SERVE 3 OR MORE REGIONS

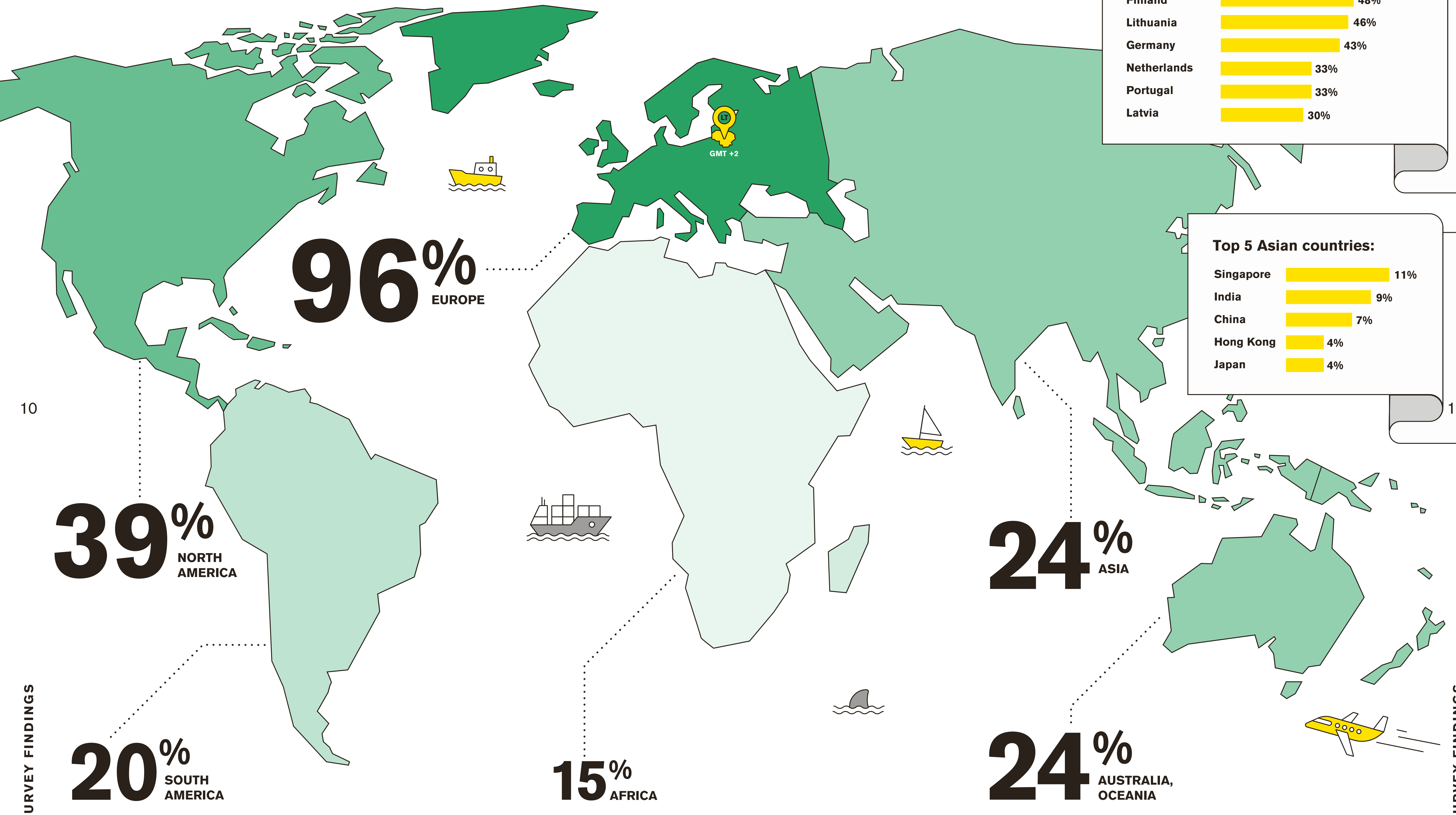
41% SERVE 10 OR MORE COUNTRIES

Top 10 European countries:

United Kingdom	65%
Sweden	61%
Denmark	59%
Norway	54%
Finland	48%
Lithuania	46%
Germany	43%
Netherlands	33%
Portugal	33%
Latvia	30%

Top 5 Asian countries:

Singapore	11%
India	9%
China	7%
Hong Kong	4%
Japan	4%



6 / Functions

Share of centers performing function:

IT

Software Development (Back end)	50%
Software Development (Front end)	48%
IT Service Desk	41%
Infrastructure Management	39%
Big Data Analytics / Data Science	39%
Software Development (Mobile)	35%
Business Intelligence	35%
Application Lifecycle Management	33%
Cybersecurity	17%
Engineering	4%

F&A

Accounts Payable	48%
Accounts Receivable	48%
Reporting	46%
General Ledger	41%
Business Controlling	39%
Travel & Expenses	33%
Master Data Management	28%
Treasury	15%
Audit	11%
Anti-Money Laundering	4%

CO

Customer Helpdesk (Back office operations)	33%
Sales & Account Management Support	26%

HR

Recruitment	33%
Administration & Reporting	26%
Payroll	22%
Compensation & Benefits	20%

BFIS

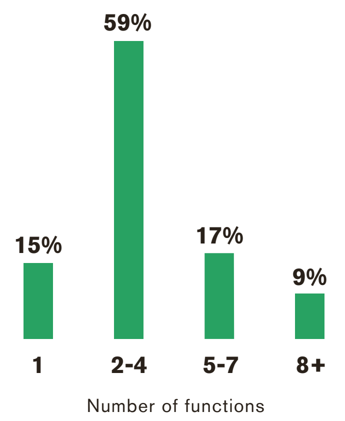
Banking Specific Services	11%
Insurance Specific Services	9%
Financial Specific Services	9%

OTHER

Analytics	43%
Robotics	26%
Business Transformation	24%
Knowledge Management	20%
Marketing	20%
Supply Chain Management	20%
Engineering (Non-IT)	17%
R&D	17%
Document Management	13%
Legal Processes	11%
Capital Markets Specific Services	7%
Other	9%

The vast majority of Lithuanian GBS centers are multifunctional, providing at least two streams of services to their clients. Multifunctionality is becoming increasingly integrated within the initial operational scope of new GBS centers. Meanwhile, established centers are also broadening their functions. As the GBS industry has grown, Lithuanian centers have displayed a tendency to include more diverse functions and operations into their activities. Functions such as Cybersecurity, Engineering, Anti-Money Laundering, Audit, Capital Market services and Robotics are increasingly playing an important role in Lithuanian GBS operations.

Share of centers by number of functions performed:

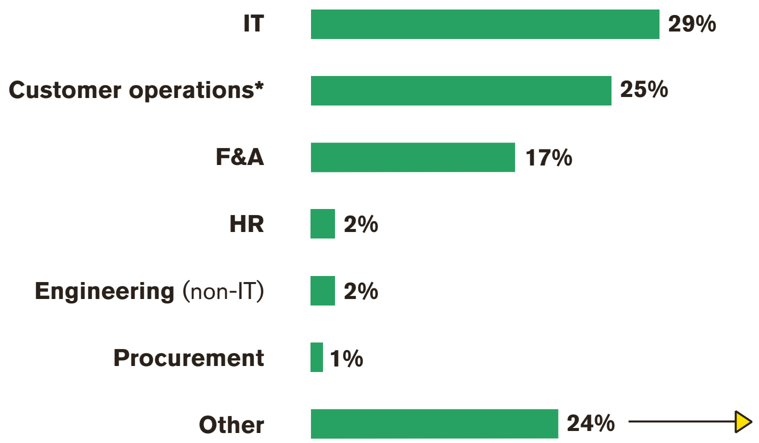


85%

OF CENTERS ARE MULTIFUNCIONAL, PERFORMING TWO OR MORE FUNCTIONS

Reflecting global trends, the Lithuanian GBS industry is increasingly shifting towards ICT and various other digital operations. IT is the leading field of operations within the local GBS industry, currently employing one-third of Lithuania's total GBS workforce. Customer operations and Finance and accounting operations also figure highly.

Share of employees by function:



Compliance
Legal
Risk Management
Sales & Marketing Support
Digital operations
Communications
Business Support
Administration

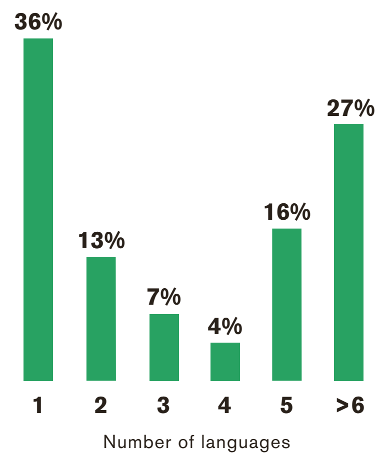
**Customer operations cover not only call center functions but also the broader scope of overall customer operations.*

7 / Languages used

Lithuanian GBS centers remain highly multilingual. 43% of all centers serve in five or more foreign languages. English is the most popular language spoken, especially in GBS centers focusing on IT.

Western European languages for the first time have gained a lead over Nordic languages. This is due in part to the increased flow of investment and entrance of new companies from Western Europe with a strong focus on their home markets: German and French-speaking clients are each served by 38% of GBS centers, respectively.

Share of centers by number of languages spoken:



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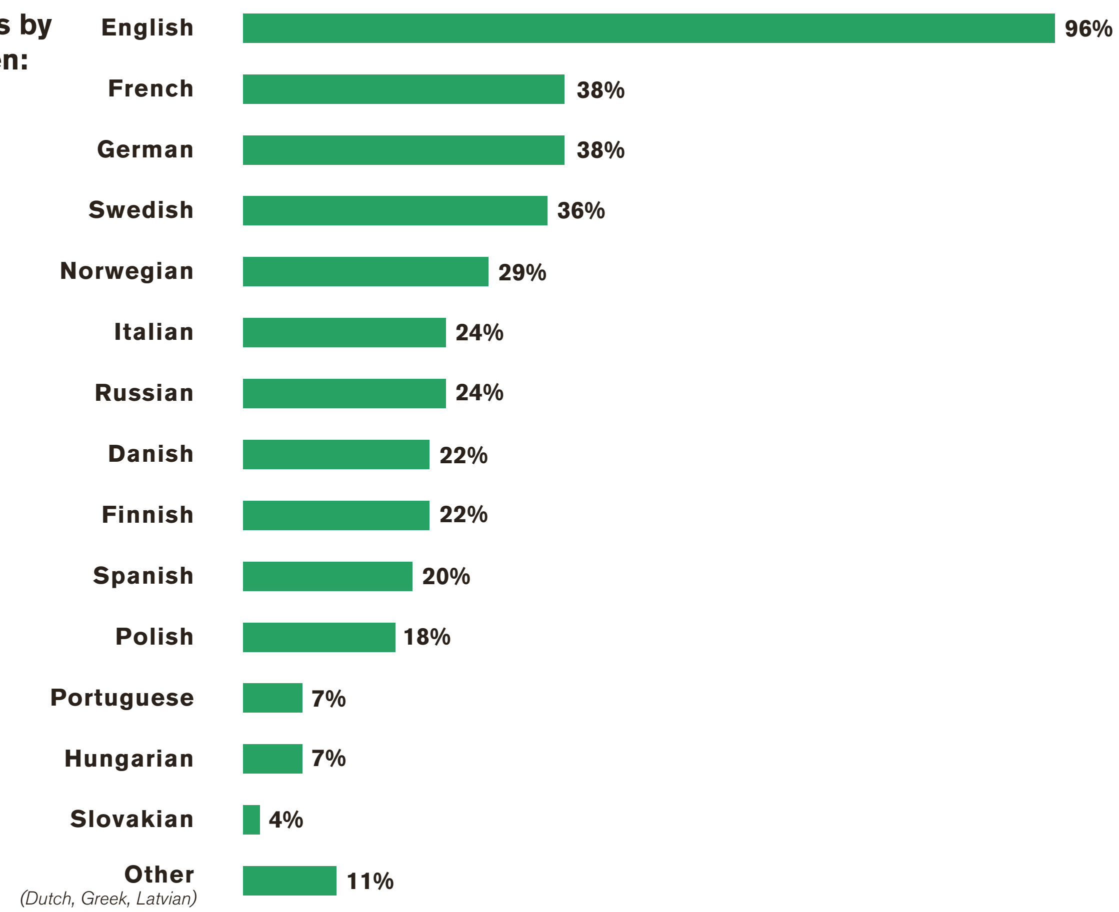
THE LARGEST NUMBER OF LANGUAGES USED IN A SINGLE CENTER

Share of centers by language spoken:



8 / Programming languages

As a result of its high-quality IT infrastructure and eagerness to develop local talent, the local GBS industry is naturally focused on the ICT industry.

Lithuanian talent tends to follow the latest trends in the IT industry and is highly willing to re-qualify and enter the IT market. In recent years there has been an increase in people entering various IT re-training programs to join the growing Lithuanian IT labor pool.

An average center uses at least six different programming languages, with the number of languages used in some centers exceeding ten.

Wix.com office in Vilnius

Share of centers by programming language used:

SQL	85%
JavaScript	78%
Java	78%
.NET	63%
C#	48%
C++	41%
Python	41%
PHP	33%
Scala	11%
Ruby/ Ruby on rails	11%
C	7%
SWIFT	4%
Other	26%

9 / Robotic process automation

The majority of GBS centers in Lithuania deploy RPA tools and are active in developing those tools themselves. 67% of centers use RPA in their daily operations, and almost half of those are involved in developing solutions in-house using local talent. The most popular RPA software providers are Blue Prism, UiPath, and Automation Anywhere.

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ROBOTS DEPLOYED AT GBS CENTERS ON AVERAGE

2.3%

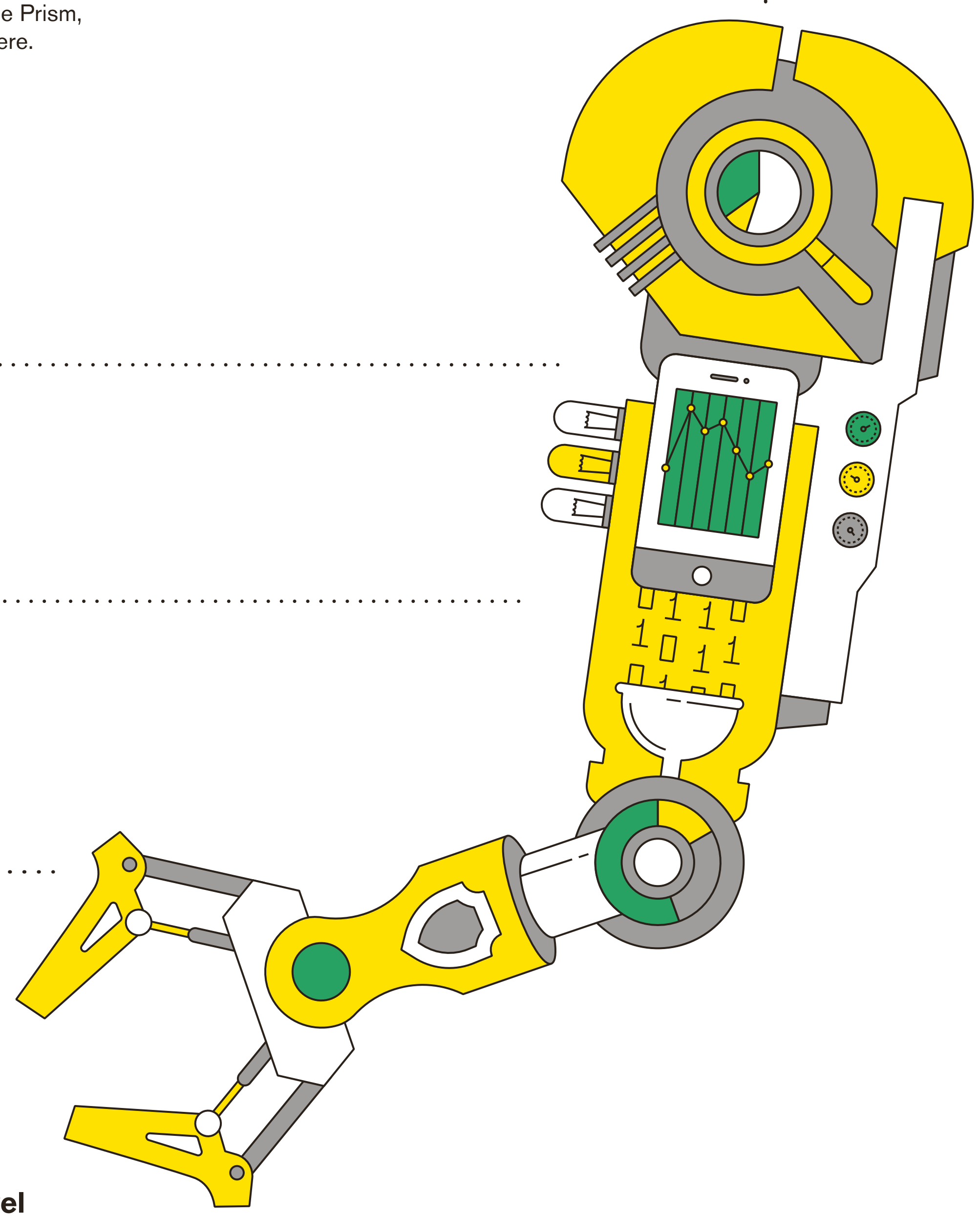
OF TOTAL GBS WORKFORCE ARE ROBOTS

67%

GBS CENTERS USING RPA SOLUTIONS

48%

GBS CENTERS DEVELOPING RPA SOLUTIONS IN-HOUSE



Share of centers by level of RPA:

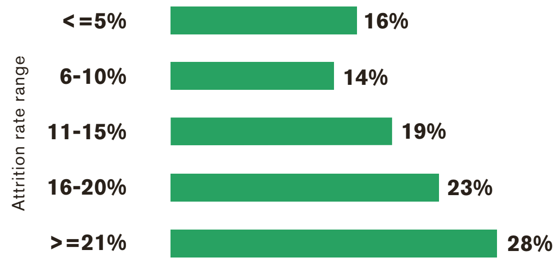
Basic Process Automation (simple VBA scripts, spreadsheet based, simple data)	32%
Robotic Process Automation (RPA tools, simple rules, structured data)	45%
Advanced Process Automation (pre-cognitive & cognitive solutions)	10%
Autonomic Process Automation (automation of complex rules, unstructured data)	13%

10 / Attrition rate

As many Lithuanians are eager to work for international companies so that they can build their careers on a global level, GBS centers are consistently recognised in polls as the most desirable employers in the country. This enables centers to attract the best talent from the market and retain it for a long time.

Attrition rate highly correlates with the complexity and maturity of the functions performed. Centers performing wide range of complex functions with significant number of senior positions experienced substantially lower attrition rates. Most of the Customer contact centers focusing on simple tasks indicated higher attrition rates, as they provide work opportunities for fresh graduates and students. These centers act as a first stepping stone for young professionals starting their careers.

Share of centers by attrition rate:



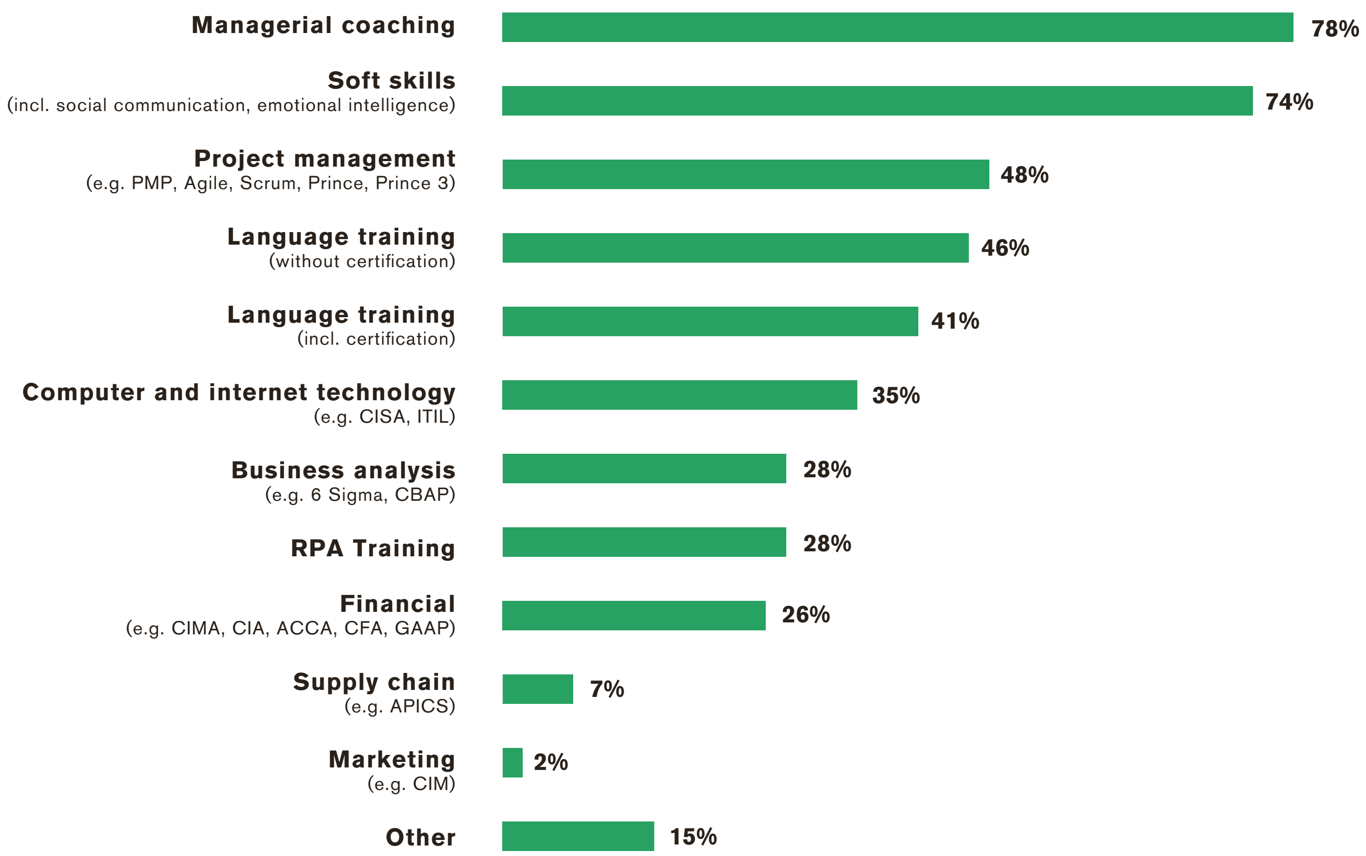
73%

OF CENTERS ARE RUN BY LITHUANIAN MANAGERS & 27% BY FOREIGN MANAGERS

11 / Training

Even though most employees are highly educated, additional training and development opportunities are viewed as a real incentive. The high level of staff requests for training is something that was noted by a number of our respondents, with the sector responding in kind and offering a wide range of training to their staff. Such investment is observed to have had positive overall effects – with results ranging from increased productivity and effective teamwork to higher retention rates.

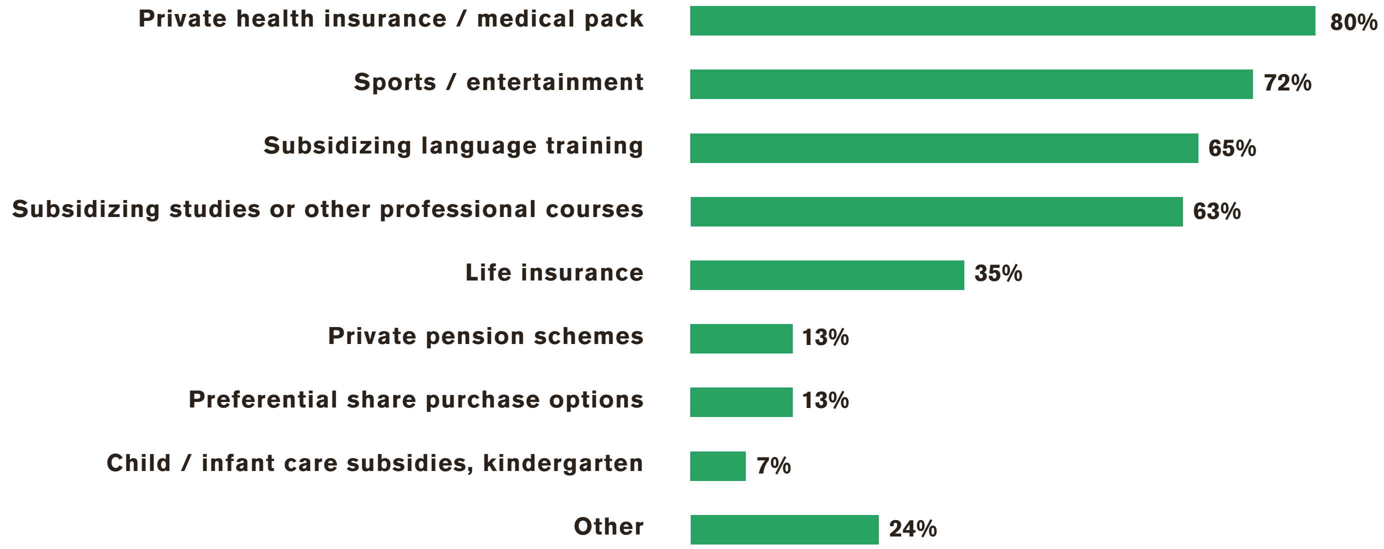
Share of centers by training provided:



12 / Benefits

It is not only additional professional training that incentivizes local GBS talent, they are also keen to secure a healthy work-life balance. In this, GBS centers are highly responsive to addressing the needs of their employees, with the most popular and appreciated benefits being private health insurance and sports packages.

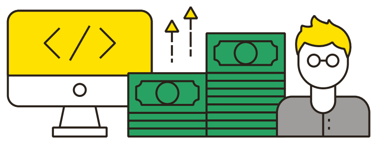
Share of centers by benefits provided:



Danske Bank Group IT office in Vilnius

13 / Wages & wage growth

Both IT and non-IT salary levels grew at almost the same rate in 2017. However, a more rapid growth is predicted for IT specialists in 2018.



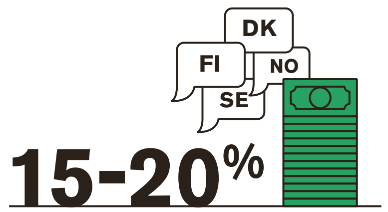
Average wage growth:

Gross monthly salary (in Eur) at GBS centers for employees who speak English:

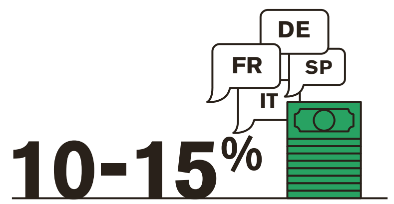
AREA	POSITION	Gross salary range in Vilnius, €			Gross salary range in Kaunas, €		
		MIN.	AVG.	MAX.	MIN.	AVG.	MAX.
F&A: AP / AR / GL	**Junior Accountant** (0-2 years' experience)	787	997	1 207	723	894	1 065
	Accountant (2-5 years' experience)	1 123	1 433	1 707	1 031	1 239	1 464
	Senior Accountant (over 5 years' experience)	1 610	1 903	2 263	1 427	1 655	1 917
	Team Leader (team of 5-15 people)	1 970	2 342	2 713	1 717	2 032	2 380
CUSTOMER OPERATIONS	**Junior Specialist** (no experience)	740	823	887	656	733	792
	Specialist (over 1 year experience)	947	1 092	1 307	831	940	1 193
	Team Leader (team of 5-15 people)	1 660	1 887	2 115	1 530	1 698	1 868
PROCUREMENT, ORDER MANAGEMENT	**Junior Specialist** (0-2 years' experience)	827	986	1 162	723	861	998
	Specialist (2-5 years' experience)	1 212	1 498	1 785	1 031	1 239	1 464
	Senior Specialist (over 5 years' experience)	1 785	1 982	2 291	1 530	1 713	1 896
	Team Leader (team of 5-15 people)	2 247	2 755	3 262	2 094	2 490	2 887

AREA	POSITION	Gross salary range in Vilnius, €			Gross salary range in Kaunas, €		
		MIN.	AVG.	MAX.	MIN.	AVG.	MAX.
HR PROCESSES	**Junior Specialist** (0-2 years' experience)	843	1 022	1 217	735	906	1 077
	Specialist (2-5 years' experience)	1 217	1 472	1 727	1 043	1 303	1 563
	Senior Specialist (over 5 years' experience)	1 727	1 988	2 250	1 563	1 830	2 077
	Team Leader (team of 5-15 people)	2 250	2 798	3 347	2 077	2 550	3 057
IT	**Junior Specialist** (0-2 years' experience)	904	1 084	1 282	750	967	1 184
	Specialist (2-5 years' experience)	1 369	1 781	2 211	1 228	1 607	2 002
	Senior Specialist (over 5 years' experience)	2 284	2 653	3 067	2 119	2 520	2 921
	Team Leader (team of 5-15 people)	2 419	2 949	3 479	2 419	2 899	3 379
	Junior Developer (0-2 years' experience)	1 075	1 424	1 756	892	1 267	1 624
	Specialist Developer (2-5 years' experience)	1 854	2 338	2 822	1 673	2 099	2 525
	Senior Developer (over 5 years' experience)	2 865	3 353	3 842	2 665	3 034	3 413
	Team Leader (team of 5-15 people)	2 921	3 470	4 020	2 921	3 376	3 832
ENGINEERING	**Junior Engineering Support specialist** (CAD, FEA, CFD, 0-2 years' experience)	1 177	1 331	1 556	1 053	1 227	1 456
	Engineering Support Specialist (CAD, FEA, CFD2, 2-5 years' experience)	1 686	1 995	2 304	1 532	1 808	2 083

Language Premiums:



DANISH, FINNISH, NORWEGIAN, SWEDISH



FRENCH, GERMAN, ITALIAN, SPANISH

Source: Alliance for Recruitment, 2018
Strategic Staffing Solutions, 2018
Amston Recruitment, 2018

14 / Education level

Lithuania's GBS sector remains a favorable and attractive environment for highly educated Lithuanian specialists – 88% of the total workforce possess a higher education degree. Nearly one third of all employees have a master's degree. This demonstrates that the country's best talent is attracted to the complex operations that the local GBS sector has to offer.

Share of employees by highest level of education:

Doctoral degree	1%
Master's degree	29%
Bachelor's degree	59%
Secondary school	12%

88%

EMPLOYEES WITH TERTIARY EDUCATION

15 / Cooperation with educational institutions

Cooperation between business and academia is steadily progressing towards long-term working models for the development and utilization of local talent. Instead of various ad-hoc projects, companies are striving to create valuable collaborative relationships with universities and other educational institutions. The ways in which companies cooperate with universities are becoming more diverse and mature – ranging from the provision of scholarships and internships to joint study programs that address specific market needs.

Share of centers cooperating with universities:

KTU Kaunas University of Technology	39%
VGTU Vilnius Gediminas Technical University	37%
VU Vilnius University	30%
ISM ISM University of Management & Economics	24%
VMU Vytautas Magnus University	24%
MRU Mykolas Romeris University	15%
LSMU Lithuanian University of Health Sciences	9%

Vilnius University

Vilnius University is the largest and oldest scientific institution in Lithuania. VU is actively engaged with Barclays, which opened its mobile application creation lab "Innovation space" at the university in 2013. VU also cooperates with the IT services company DXC Technology, which acts as official partner for some of VU's bachelor programs, and opened a university lounge zone in 2017.

Vilnius Gediminas Technical University

VGTU is one of the leading universities for technological sciences in the Baltics states. VGTU is focused on the fields of ICT, fintech, cybersecurity, smart cities, urban mobility, engineering, etc. Examples of its business partnering include Danske Bank and Bentley systems' programs of internships and work placements, lectures, industrial PhD programmes and student mentoring.

Kaunas University of Technology

KTU is the leading university for technology studies in both Lithuania and the Baltic region. KTU has been actively cooperating with Festo since 2014, with the company agreeing to provide scholarships and organize IT subject-related seminars and lectures, as well as invite students for internships at both its Kaunas branch and the company's headquarters in Germany. The university has also enjoyed close and productive collaboration with the company Intermedix, which established a specialized Innovation and Creativity Lab at KTU in 2015.

ISM University of Management & Economics

ISM University was the first private university to be established in Lithuania. It focuses exclusively on Economics, Business Management, Politics, Finance and Innovation. ISM University began its cooperation with Cognizant Technology Solutions in 2016, when the company started to sponsor Norwegian language courses. Both Cognizant Technology solutions and Transcom provide scholarships to ISM students.

67%

OF GBS CENTERS IN LITHUANIA ARE CURRENTLY WORKING TOGETHER WITH UNIVERSITIES

16 / Real Estate

VILNIUS

Twelve office buildings totaling 150,000 sq.m are currently under development in Vilnius. 50% of space is pre-let, which means that approximately 75,000 sq.m are available for rent in 2018 and 2019. A further 100,000 sq.m is scheduled for commissioning in 2020, including a 60,000 sq.m office campus to be commenced this year by Vastint (IKEA's real estate development arm).

Looking to the future, more than 300,000 sq.m of office space has been designed and is currently awaiting pre-lease agreements. Vacancies are expected to increase slightly in the coming years, from their current average of 3%.

KAUNAS

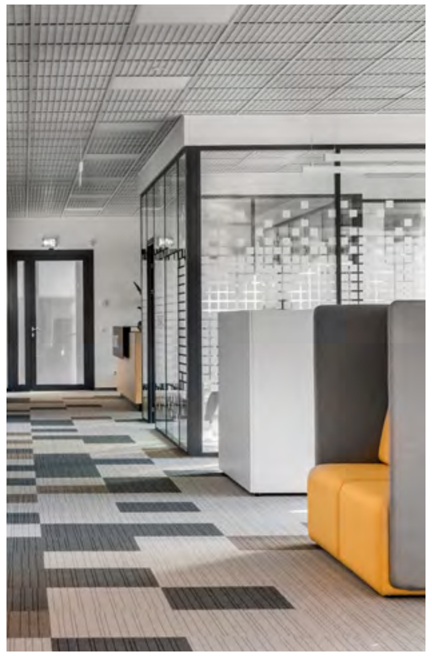
Kaunas office stock increased by 44% in 2017, with 11 office buildings (44,000 sq.m) opened. This growth is set to continue with 17 new openings (99,000 sq.m) scheduled for 2018 and 2019. Most of the space is being built speculatively, providing sufficient choice for potential occupiers.

Vacancies are expected to increase slightly from the current level of 11% due to multiple new speculative office developments in Kaunas.

Class A average **15.5** EUR/sq.m
Class B average **12** EUR/sq.m

Class A average **12.5** EUR/sq.m
Class B average **10** EUR/sq.m

Depending on specific demand and deal structure tenants can expect rent incentives including fit-out contributions, rent free periods, etc.



Dematic office in Kaunas

Skandia office in Vilnius

Common tendencies:

- In both Vilnius and Kaunas, the overall quality of office stock is very high as the markets are dominated by new constructions that are driven by the needs of demanding tenants who are using space as a tool to attract and retain talent.
- Most new developments offer super-efficient space usage and layout structures, big floor-plates (1,000 sq.m and more), and top-tier infrastructure (choice of restaurants and cafes, comfort for cyclists, car sharing, meeting rooms, sports facilities, retail, serviced offices and co-working, etc.). Sustainable development is also a trend, with most developers designing and building in line with either BREEAM or LEED standards.
- Developers have become accustomed to a market in which the majority of space is let during the 6 months before and 6 months after the building's commissioning. This has resulted in a great deal of speculative building. This means that tenants have a range of options when it comes to choosing their premises, as well as flexibility when it comes to planning their establishment and expansion.
- Large-scale schemes are increasingly entering the market. Notable recent examples include the Technopolis campus, Quadrum, Park town, Business Stadium, Vilnius Business Garden and more. Such office schemes allow large-scale occupiers to establish and plan growth in the same building or same campus/area.

Source: Newsec, 2018

ADDITIONAL INFORMATION

17 / Work in Lithuania

Work in Lithuania

Work in Lithuania is the talent attraction and relocation program initiated by Invest Lithuania in 2017. The program aims to encourage and attract foreign talent to choose Lithuania for their career path and facilitates relocation processes when needed. Work in Lithuania brings the most prominent employers in Lithuania together with the most ambitious candidates, to develop the Lithuanian talent ecosystem at a national level.

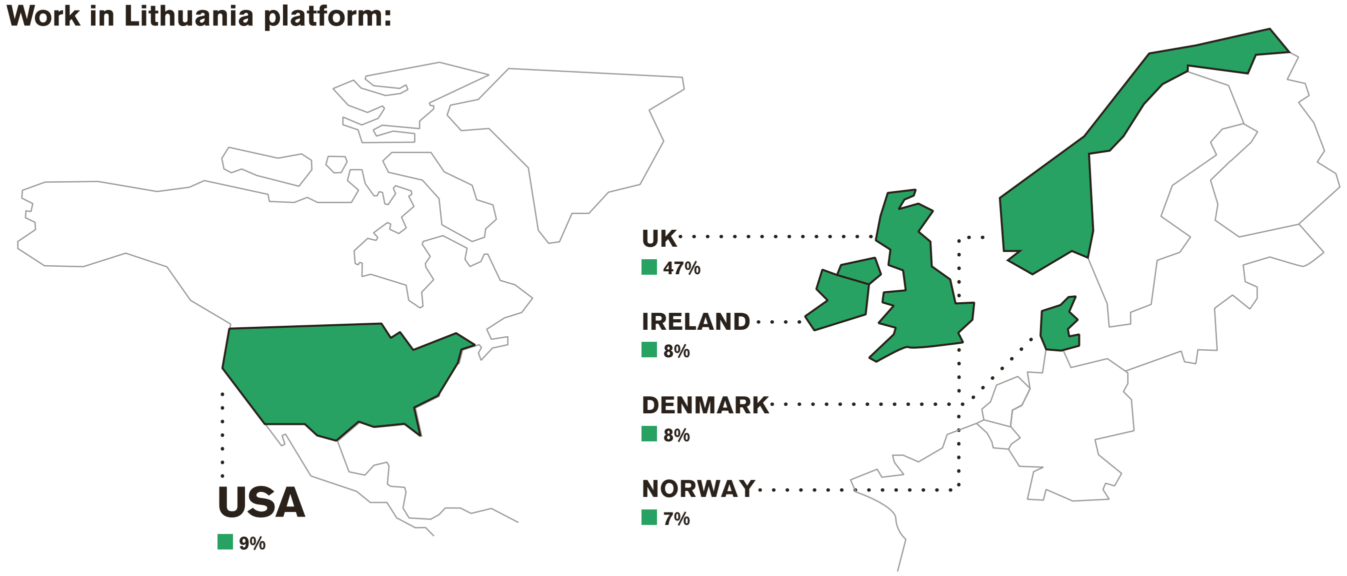
workinlithuania.lt

9,000
MONTHLY PLATFORM VISITORS ON AVERAGE

70+
INTERNATIONAL COMPANIES ACTIVE ON THE PLATFORM

207
MONTHLY APPLICATIONS ON AVERAGE

Top 5 countries visiting the Work in Lithuania platform:



ADDITIONAL INFORMATION

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