Pakistan IT & ITeS Industry

A Transformed INDUSTRY

The Pakistani IT & ITES industry today has an impressive story to tell. Much like the successful startup that one would have not heard of a few years ago but is all of a sudden the talk of the town. The Pakistan IT and ITES industry has started to appear on the radar of firms like Gartner and IDC and in reports by AT Kearny and the World Bank. It is a transformed industry growing exponentially and creating a stir.

$2 Billion
ESTIMATED SIZE OF THE IT & ITES INDUSTRY TODAY
From its nascent beginnings in the late 1980s, the industry has successfully arrived to a point where its value proposition has been validated over and over again. The largest members are grossing 15-25 million dollars in revenues, and receiving 100 million dollar valuations. Most tech companies are growing in excess of 30% a year annually. The industry as a whole is doing over 2 billion dollars a year in revenue, up from less than a billion dollars a few years ago.

39% Growth
IN SOFTWARE & SERVICES SECTOR FOR 2007 - 08
About half of this growth is coming from foreign, software and high end services projects. IBM, Cisco and Microsoft are expanding Pakistan operations aggressively while several startups are now backed by VCs such as ePlanet Ventures, Motorola, Adobe and Innovacom1.

41% GROWTH
IN EMPLOYMENT OF PROFESSIONALS
Current growth rates indicate that the industry will exceed the 11 Billion USD mark within the next 5 years. What other sectors and countries have achieved in 15-20 years, Pakistan's technology scene is poised to achieve in less than a decade.

Putting it all together, the Pakistani Technology industry is very different from what it was in the early 1990's. From 4 founding companies in 1994, PASHA's current membership exceeds 370.

From 4,619 full-time employees in 2004, current employment is at 12,232 and rising.
The number of QA Professionals have doubled in the last 3 years and 20% of those employed in the sector are foreign qualified.

Fast becoming a hub of high performance business, the questions now asked are if growth this year will be 28% or 50%, if there will be enough skilled HR to staff demand, if there will be enough office space available next year.

Pakistan: Key Metrics & Indicators
In 2007, Gartner released a report titled, "Analysis of Pakistan as an Offshore Service Location" which placed the country in the First Category destinations and also acknowledged Pakistan's labour costs to be 30% lower than India's, with Telecom costs the lowest of any outsourcing destination.

The same year a World Bank report on ease of doing business ranked Pakistan at number 2 in South Asia and at number 74 globally in a group of 159 countries.

Besides telecom and lower costs for highly skilled HR, there are some key competitive advantages that Pakistan enjoys which has put it on the fast track as an upcoming global destination for technology product and services.

To its global clientele, the industry offers a vast and growing skilled English speaking population, an impressive HR development program, a conducive policy environment, 100 percent ownership of equity and repatriation of the foreign investors' profits as well as tax exemption on these investments and exported software until 2016. The cost of setting up and doing a business is relatively low, lower than China and India.

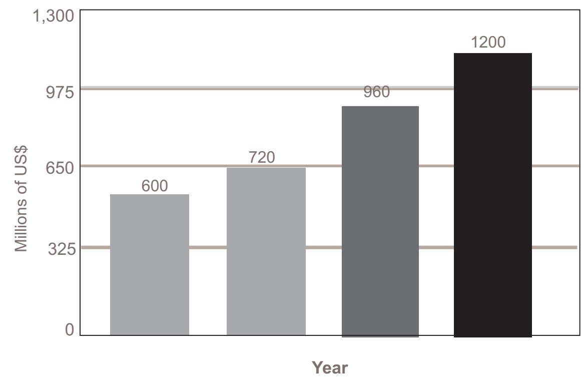
The country is also investing heavily in creating human resource to meet the needs of the future and has one of the world's most ambitious programs to invest in higher education. (30,000 private sector university graduates, 150,000 total university graduates a year).

THE INDUSTRY AT A GLANCE

Software / BPO Companies in Pakistan

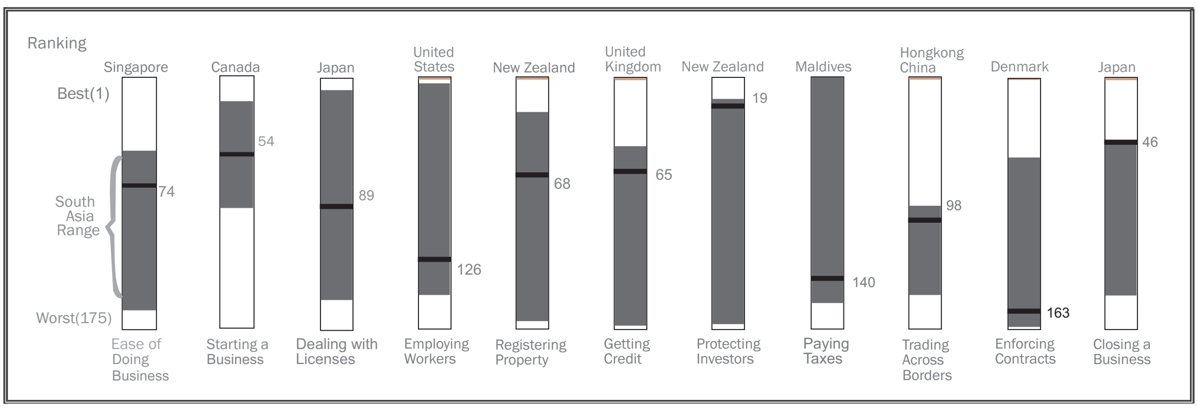
Est. Total No. of Companies	500+
No.of P@SHA Members	370+
Companies Surveyed	85
Foreign Subsidiaries	32%
Firm with Front Offices Abroad	54%
ISO Certified Companies	46%
CMM/CMMI Certified Companies	14%
CMM-Level 5 Companies	2
Domestic:Export Breakdown	52:48

Software/BPO Revenues



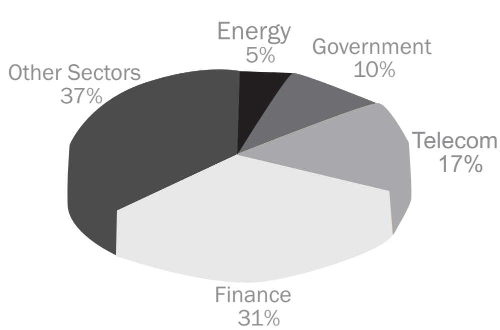
Country Profile

PAKISTAN Ranks 2nd Overall in South Asia, in the upper half of countries globally



Source :World Bank

Pakistan IT Sector Customers

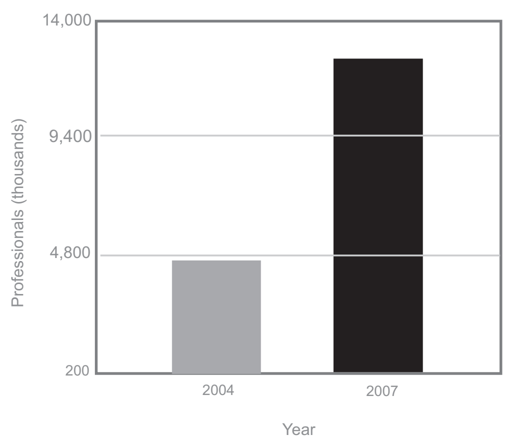


Growth in Company Size & Maturity

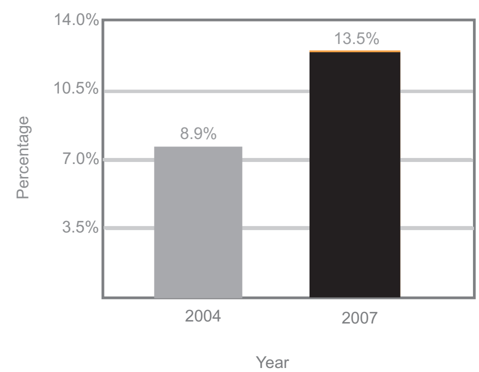
Revenue Category	2004	2007
Less than $ 50k	24	6
$51–100K	16	7
$101–500K	19	26
$501K–Million	8	15
$1M–5 Million	13	17
$5M –10 Million	3	6
$ 10 Million and above	0	13

THE INDUSTRY AT A GLANCE

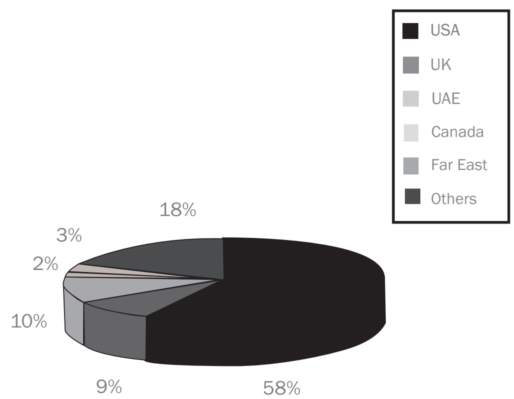
Employment Growth (Full Time)



Women in the Workforce



Largest Export Markets



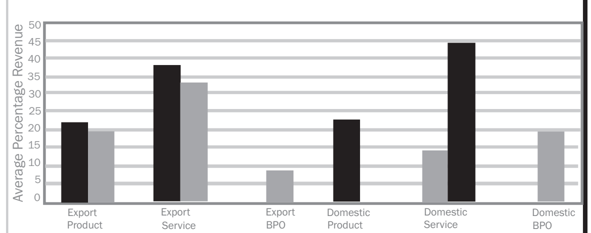
Employee Growth Summary

	2004	2007
Average per Company	81	214
Average Length of Employment	2.6 yrs	2.9 yrs
Foreign Qualified Employees		20%
Number of QA Professionals	333	771
Employment Growth (2006-7)		27%
Employment Growth (2007-8)		41%

Startup Watchlist

iscrybe.com
Paktranslation.com
Pixsense
MobileComplete
Amaana
Sofizar
Orgoo
Krasys
Alchemy
Naseeb Networks
Innov8

Destination-Offering Mix



Destination - Offering Mix

Emerging Trends in the Industry

As the industry evolves, market forces and customer demands have shown similar patterns emerge amongst players. Expect these trends to enforce over the next year as the shift to the domestic market gathers pace as customers in Pakistan demand a greater number of services ranging from Software, BPO, ERPs and Data centers.

Trend#1: Responding to Domestic Demands

Driven by domestic demand for IT product and services, the mix of domestic and export revenues have grown from 40:60% in 2004-5 to 52:48% in 2007.

Trend#2: Best of Breed Systems Integrators

A number of companies have jumped into the Systems Integration business using well-established platforms to deliver client value. These companies are well funded, have drawn back Pakistanis from abroad, and built up strong infrastructures and expertise in key enterprise areas such as ERP, BI, Storage, Networks and Hardware, and are comparable to the IBMs and Accentures of the world. They compete regularly against multinational SI firms for some of the largest domestic contracts each year. With domestic customers demanding standard enterprise solutions instead of the "lets build our own ERP" approach, these companies are revving up for even greater demand of their services.

Trend#3: The Emergence of a Startup Ecosystem

The importance of domain expertise, intellectual property and idea content in new start-ups has increased. A number of innovative, product based and web 2.0 start-ups is on the rise. Supported by senior entrepreneurs, mentors, angel investors and Barcamp style events such as P@SHA's Startup Insiders, more graduates are looking for funding and launching start-ups as opposed to joining the workforce as employees. The MIT sponsored MITCEF business acceleration plan, TiE, and TAN (Technology Angels Network) have also helped in taking startups to the next level.

Trend#4: Innovative Business Models for Export Success

The industry's love affair with India-obsessed low cost all purpose custom software house business model is over. Led by TRG, Techlogix, Sofizar, Pixsense and NetSol, the industry has begun using innovative business models to build 'unfair' advantage, high end skills and products for foreign clientele.

Trend#5: From Low Cost Voice to Functional BPO

While there are certainly some individual success stories in the low cost voice business arena, the industry has to a large extent moved away from the volume driven low-margin voice-based business into functional BPO which is higher value. The domestic market is also fueling BPO grown especially in the areas of Help Desk, Call center operations for banks and telcos as well as utility companies and government entities. There is also a trend to completely outsource IT infrastructure and data centers.■

From a macroeconomic perspective, the country has shown solid fundamentals in the last five years with strong GDP growth averaging more than 6% per annum. The Karachi Stock Exchange with more than 600 listed securities and an active trading history, boasts the lowest listing costs in the region.

Attracted by the country's strong economic sectors and demographic fundamentals, a number of multinationals, venture capitalists and angel investors have been attracted to the country. A multinational angels network with roots in Boston and Karachi has been launched and a number of venture funded cross border transactions realized.

Direct foreign investment is booming. Companies like Etisalat – the state-owned Telecom provider of the UAE and one of the leading brands in the Middle East, acquired a majority stake in the country's largest telecom provider, PTCL for $2.6 billion in 2007. Other companies entering or expanding in Pakistan include Orascom of Egypt, OmanTel, Telenor of Norway, Cisco, Dell and China Telecom, Bank Nomura, Barclays, Standard Chartered Bank, IBM, Oracle, SAP, HP, Microsoft, NCR and Teradata.

In 2006-2007, these 85 companies also recorded domestic revenues of $269 million. This was a 39% increase from $193 million in 2006, showing an even stronger demand for IT products and services locally.

This increase points to an important, fast growing trend. As domestic customers demand for higher quality software and services increases, several companies that previously focused on foreign-only clientele now look to addressing these needs and treat this opportunity as a significant revenue source.

In terms of products and service offerings, as many as 68% of companies describe themselves as IT-services companies, about 40% as IT consulting companies, and around 27% as business process outsourcing companies.■

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