Deloitte Shared Services, GBS & BPO Conference

Locations to Enable a Global Delivery Model: What are the Options?

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Why and when location matters
Process drives location options, location impacts design
Some other basic principles …
Designing / upgrading your delivery organisation

Criteria for sharing
- Potential to leverage
- No need for local controls
- No significant tax/ legal issues
- Low/moderate dependency on local information
- Little communication complexity
- Potential cost/other benefits

Selecting the location
- Process stability
- Required cultural understanding
- Process criticality
- Risk
- Cost of systems/communications breakdown
- Comprehensiveness of contingency plans/back-ups
- Time zone impact

<table>
<thead>
<tr>
<th>Site Support</th>
<th>Business Partner</th>
<th>Center of Excellence</th>
<th>Shared Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local or Regional</td>
<td>Local, Regional and/or Corporate</td>
<td>Virtual, Regional or Global</td>
<td>Regional or Global</td>
</tr>
</tbody>
</table>

On shore ↔ Off shore
Evolution of shared services
SSOs have been evolving and so have the requirements for locations

<table>
<thead>
<tr>
<th>Delivery models</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
<th>2020s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local SSO</td>
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<tr>
<td>Regional SSO</td>
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<tr>
<td>Global SSO / Global Business Services</td>
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</tr>
</tbody>
</table>

Priorities and characteristics

Cost reduction
- + Labour costs
- + Property costs

Service standards
- + Political & economic stability
- + Taxation and incentives
- + Market proximity
- + Proximity to corp operations

Value creation
- + Financial stability and safety
- + Multi-lingual specialised skills
- + Transport connectivity

Innovation
- + Technology savvy talent
- + Technical infrastructure
- + Local innovation cluster
- + Natural hazards and risks

Key location drivers

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Evolution of shared services
SSOs have been evolving and so have the locations options

Delivery models
- Local SSO
- Regional SSO
- Global SSO / Global Business Services
- Internet of Competencies?

Location options

1990s
- Mostly: In existing operations
- Offshoring begins with pioneers:
  - British Airways, American Express, General Electric, Swissair set up back offices in India

2000s
- Bangalore
- Barcelona
- Beijing
- Belfast
- Bucharest
- Budapest
- Buenos Aires
- Chennai
- Dalian
- Dublin
- Glasgow
- Hyderabad
- Kuala Lumpur
- Manila
- Mexico City
- Mumbai
- New Delhi
- Prague
- Sao Paulo
- Shanghai
- Shenzhen
- Singapore
- Warsaw
- Bratislava
- Brno
- Bogota
- Casablanca
- Cebu
- Cluj
- Cochin
- Gdansk
- Gurgaon
- Iasi
- Katowice
- Kolkata
- Krakow
- Monterrey
- Noida
- Port Louis
- Poznan
- Pune
- San Jose
- Sofia
- Szczecin
- Timisoara
- Vilnius
- Wroclaw

2010s
- Build on top of existing SSC/GBS competencies and infrastructures in more mature locations

2020s
### GBS and location requirements

GBS require mature and quality locations to be successful. Talent and operating ecosystem must trump cost in the decision making.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Implications on locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple sets of specialised skills across different functional domains</td>
<td>Large and wide pools of experienced specialised talent</td>
</tr>
<tr>
<td>Need for high quality graduates to sustain long-term growth</td>
<td>Quality business and technical universities</td>
</tr>
<tr>
<td></td>
<td>Local investments/initiatives for new skilling and up-skilling</td>
</tr>
<tr>
<td>Ability to support a wide range of important local and regional entities</td>
<td>Multi-lingual specialised staff (combination of skills and languages)</td>
</tr>
<tr>
<td>Ability to stay connected to main business operations in the region</td>
<td>Good and frequent multi-modal transport connectivity</td>
</tr>
<tr>
<td></td>
<td>Quality telco infrastructure</td>
</tr>
<tr>
<td>Consolidate to achieve economies of scale</td>
<td>Healthy labour market (i.e. no war for talent)</td>
</tr>
<tr>
<td>Be able to attract talent from outside</td>
<td>Large pools of experienced specialised talent</td>
</tr>
<tr>
<td>Ensure sustainability and stability of operations</td>
<td>Sizeable pools of university graduates</td>
</tr>
<tr>
<td>Favourable fiscal regime justifying consolidation</td>
<td>High quality of living to act as magnet for regional talent</td>
</tr>
<tr>
<td></td>
<td>Stable operating environment</td>
</tr>
<tr>
<td>Ability to combine in-/out- sourcing models per GBS activity</td>
<td>Local presence of strategic sourcing vendors’/partners’ operations</td>
</tr>
<tr>
<td>Ability to decide on and manage GBS SLAs and service delivery</td>
<td>Maturity and quality of local management skills</td>
</tr>
<tr>
<td>Industry-specific or specific sector knowledge</td>
<td>Presence of relevant industry / sector clusters</td>
</tr>
<tr>
<td></td>
<td>Presence of similar industry GBS operations</td>
</tr>
</tbody>
</table>
Too few locations?
Our client’s TOM aimed for a GBS with 3 regional hubs

Drivers
• PMI
• Accommodate growth
• Service excellence
• Cost reduction

Finance  Customer Service / Master Data  HR  Supply Chain  Management + Support

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Too few locations?
Over 40 cities were initially considered.
Too few locations?
21 made it to the long list
Too few locations?
Of the 8 visited cities, 3 were selected
Sourcing strategies
If cost would drive the decision …
Sourcing strategies
Bit costs aren’t everything: Saturated and emerging locations

- **AP**
- **AR**
- **GL**
- **GMD**
- **T&E**
- **2nd line IT support**
- **VAT**
- **Purchasing**
- **Recruiting**

**Process**

- **Low cost**:
  - Many graduates
- **Higher cost**:
  - Many experts

**Value-add**

- **Low Value-add**
- **Moderate V-A**
- **High V-A**
- **Highest V-A**

**Interaction**

- Increased interaction

**Consultation**

- Consultation, MIS

**Value**

- Low Value
- Moderate V-A
- Increased V-A
- High V-A
- Highest V-A

**Under the Radar**

- Emerging Hotspot

**Hotspot**

- Hotspot

**Proven**

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Sourcing locations - What’s hot and what’s not (2014-15)
CE (33%) capitalises on its success, LATAM (14%) is expanding, APAC (45%) remains stable as SSC destination
Sourcing locations – Global optimisation
HR shared services case example

- Tiered SDM
- Some global processes mirrored regionally
- Key languages supported from global / regional SDCs

**Regional DC**
- Mexico City
  - Learning Admin
  - Mexico, Panama, Argentina
  - Spanish
- Sao Paulo
  - Learning Admin
  - Brazil
  - Portuguese
- Regional DC
  - Malta, France, Germany
  - French
  - Canadian French
- Regional DC
  - Global / Regional DC
  - Global Mobility
  - Reporting System Support
  - Reward
  - UK, NAM, India, Hong Kong
  - Arabic
  - English

**Regional DC**
- Cairo
  - Learning Admin
  - UAE, Egypt, Saudi Arabia
  - Arabic
  - English

**Regional DC**
- Shanghai
  - Learning Admin
  - Chinese, Mandarin
  - Cantonese

**Regional DC**
- Manila
  - Learning Admin
  - Filipino

**Regional DC**
- Prague
  - Learning Admin
  - Czech

**Regional DC**
- UAE, Egypt, Saudi Arabia
  - Arabic

**Regional DC**
- China, Hong Kong
  - Cantonese
  - Mandarin

**Regional DC**
- UK, NAM, Malaysia, Singapore, Philippines, Hong Kong
  - English
Prevailing TOMs
SSO maturity, historical geographic footprint impact GBS location choice

Tentative insights

- Apparently no single “best-in-class” TOM
- More mature SSOs are more prone to locate their GBS hub offshore, relative newcomers prefer Europe
- Companies with a historic multi-site SSO footprint evolve into integrated structure of CoEs
Cities in 2020
Large city doesn’t equal right city

GLOBAL CITY POPULATIONS*

43.8% Rural
23.2% Other urban Fewer than 300,000
3.7% Smallest cities 300,000 to 500,000
5.3% Small cities 500,000 to 1m
12.1% Medium cities 1m to 5m
4.3% Large cities 5m to 10m
7.6% Megacities 10m or more
Africa as next destination for GBS?

Despite favourable demographic prospects, a multilingual skilled work force will remain in limited supply in most of the African countries to serve as GBS destination. Some new African countries will emerge as Pan-Africa regional SSC hubs, such as Egypt, Algeria, Ghana.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Size of local labour pool for SSC/GBD type profiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>53</td>
<td>15,7</td>
</tr>
<tr>
<td>Egypt</td>
<td>82</td>
<td>12,7</td>
</tr>
<tr>
<td>Poland</td>
<td>38</td>
<td>12,0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>174</td>
<td>6,0</td>
</tr>
<tr>
<td>Romania</td>
<td>20</td>
<td>5,0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>11</td>
<td>4,6</td>
</tr>
<tr>
<td>Morocco</td>
<td>33</td>
<td>3,9</td>
</tr>
<tr>
<td>Algeria</td>
<td>39</td>
<td>3,4</td>
</tr>
<tr>
<td>Hungary</td>
<td>10</td>
<td>3,0</td>
</tr>
<tr>
<td>Ghana</td>
<td>21</td>
<td>2,0</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>94</td>
<td>1,7</td>
</tr>
<tr>
<td>Madagascar</td>
<td>23</td>
<td>0,7</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1</td>
<td>0,3</td>
</tr>
<tr>
<td>Botswana</td>
<td>2</td>
<td>0,3</td>
</tr>
<tr>
<td>Namibia</td>
<td>2</td>
<td>0,1</td>
</tr>
</tbody>
</table>

FDI inflow into Africa
(in billion $ at current prices and exchange rates)

Sources: GLS analysis based on UNCTAD, ILO data
Africa as next destination for GBS?
Spectrum of options, though few mature ecosystems

First observations

- Cost arbitrage
- Many competitors
- PanAfrica countries positioning throughout the spectrum
- For language skills only French might lead to competitive advantage

Key cities

- Accra, Alexandria, Antananarivo, Cairo, Cape Town, Durban, Ebene, Jo’burg, Maputo, Nairobi,
Lessons from the trenches
Typical mistakes made by companies in their location selection

- Inexperienced in-house resources
- Stakeholders involvement
- Politics and emotions
- Confidentiality

People

- Single factor / unidimensional focus
- Quick investigation
- Follow the crowd

Process

- Generic open source data
- Outdated data
- Insufficient criticism / calibration of data
- Biased local government data

Data

- Local business environment
- Local labour, tax, business permitting, environmental, data protection regulations
- Regional/local regulatory variations

Regulations

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