



In this Deloitte Point of View Elias van Herwaarden and Val Popovici of Deloitte's Global Location Strategies share their insight on Global Business Services (GBS) site selection, and why companies should think twice before deciding where to locate their GBS.

From shared services to GBS

While pioneers like American Express, General Electric and British Airlines first implemented shared services in the 1980's, the concept is widely accepted today. In fact, some estimates suggest that more than two thirds of Fortune 500 companies have implemented shared services. The leading ones today operate networked shared services centres (SSCs), comprising captive and outsourced processes, with delivery centres in key locations around the world (see Figure 1).

For the last 5 years, corporations moved on to create GBS. GBS integrate an enterprise's governance, locations, functions and processes of all shared services and outsourced activities across geographies. Even if cost efficiencies remain an important driver for setting up shared services or GBS, GBS aim more to improve delivery efficiency, effectiveness, business outcomes and to provide platforms to support growth.

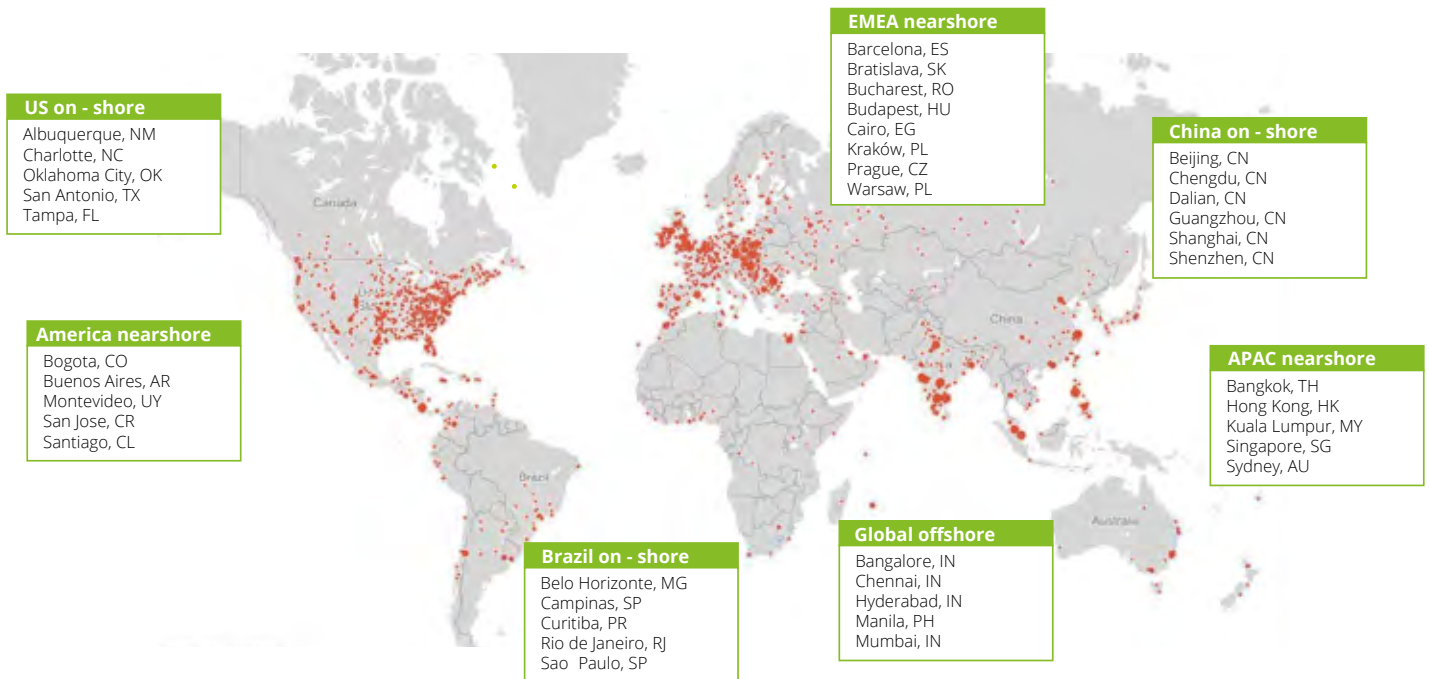


Figure 1: Sample of typical BPO, SSC, and GBS locations around the world.

Why you should take location seriously

The strategic importance of GBS organisations for multinational companies is undeniable. GBS is a long-term strategic investment, requiring significant organisational transformation. The location choice of a future GBS organisation is fundamental to the success of this transformation.

Traditional SSC or BPO destinations may not provide the right fit for the higher value-adding and more advanced GBS operations. GBS processes tend to place different demands on the local talent pool, the local business support cluster and the wider operating ecosystem's ability to support GBS (see Figure 2).

However, in selecting the location of their GBS, many companies tend to treat such demands with a dangerous lightness, focusing mainly on cost aspects in their decision making process. In our experience,

successful GBS locations are the ones that provide the right trade-off of cost, talent and operating environments, with the latter trumping cost as a key decision factor.

Yet it is exactly the analysis of these non-cost factors that poses a serious challenge to corporate decision makers. Many companies do not have access to reliable up-to-date data on local operating conditions or lack experienced capabilities to interpret "open data noise". As a result, comparing location options can be challenging. Teams charged with location selection for GBS should spend sufficient time in performing rigorous analysis, with independent expert support if possible. Expert review of data and conclusions is advised to obtain an unbiased validation, and to ascertain that GBS will locate in the right "ecosystem" that will foster its goals and growth.






	GBS requirements	Implications on locations
 Multi-function	<ul style="list-style-type: none"> Specialised senior talent across functional domains Top graduates to sustain long-term growth 	<ul style="list-style-type: none"> Deep pool of experienced specialised talent Quality business and technical universities Local initiatives for upskilling
 Multi-region	<ul style="list-style-type: none"> Multi-regional support of corporate entities Connected to main business operations in the region 	<ul style="list-style-type: none"> Multilingual staff (skills + languages) Good and frequent multi-modal connectivity Quality telecom infrastructure
 Multi-location	<ul style="list-style-type: none"> Consolidate to achieve economies of scale Attract outside talent Ensure sustainability of operations Favourable fiscal regime justifying consolidation 	<ul style="list-style-type: none"> Healthy labour market conditions Sizeable pool of university graduates High quality of living Stable operating environment
 Multi-sourced	<ul style="list-style-type: none"> Combine in-/out-sourcing models per GBS activity Decide on GBS service level agreements (SLAs) Manage GBS service delivery 	<ul style="list-style-type: none"> Local presence of sourcing vendors'/partners' operations Maturity and quality of local management skills
 Multi-business	<ul style="list-style-type: none"> Industry-specific or specific sector knowledge 	<ul style="list-style-type: none"> Presence of relevant industry clusters Presence of peer industry GBS operations

Figure 2: Location implications of GBS requirements

Our methodology

The GBS location and site selection process consists of a rigorous elimination and qualification process closely linked to clients' vision, strategy and project requirements (see Figure 3).

Multiple dimensions should be considered in when assessing the numerous GBS location options. Deloitte uses its Location Selection Framework (see Figure 4) which is based on six "qualitative" dimensions that allow us to determine a location's "business fit" index in function of each company's specific GBS requirements. This business fit is then compared against the total cost of each candidate location to determine the trade-off of various options. In the mid- to long-term, these dimensions are more important to the success of GBS than costs. We therefore treat them as key criteria in GBS site selection.

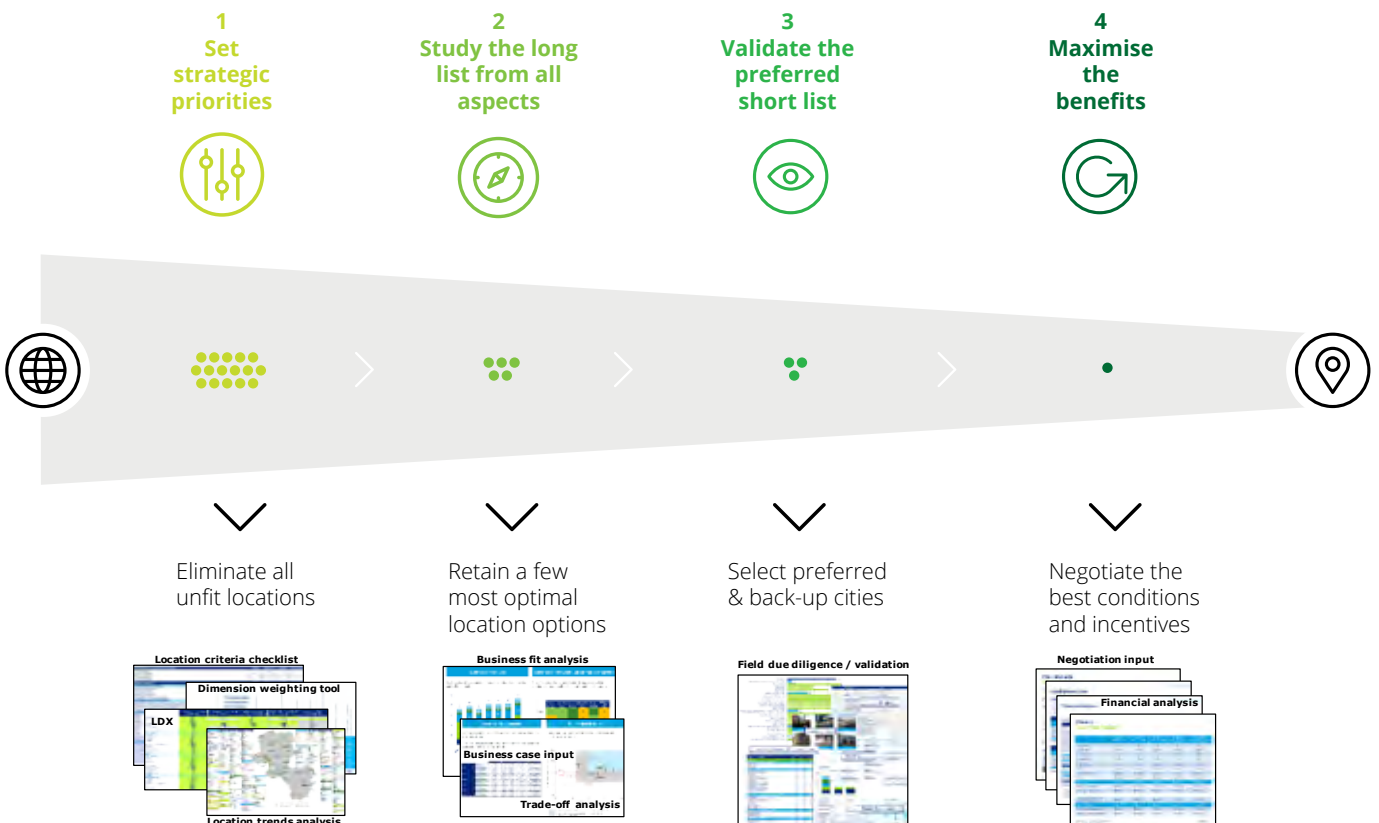


Figure 3: Deloitte's location selection approach

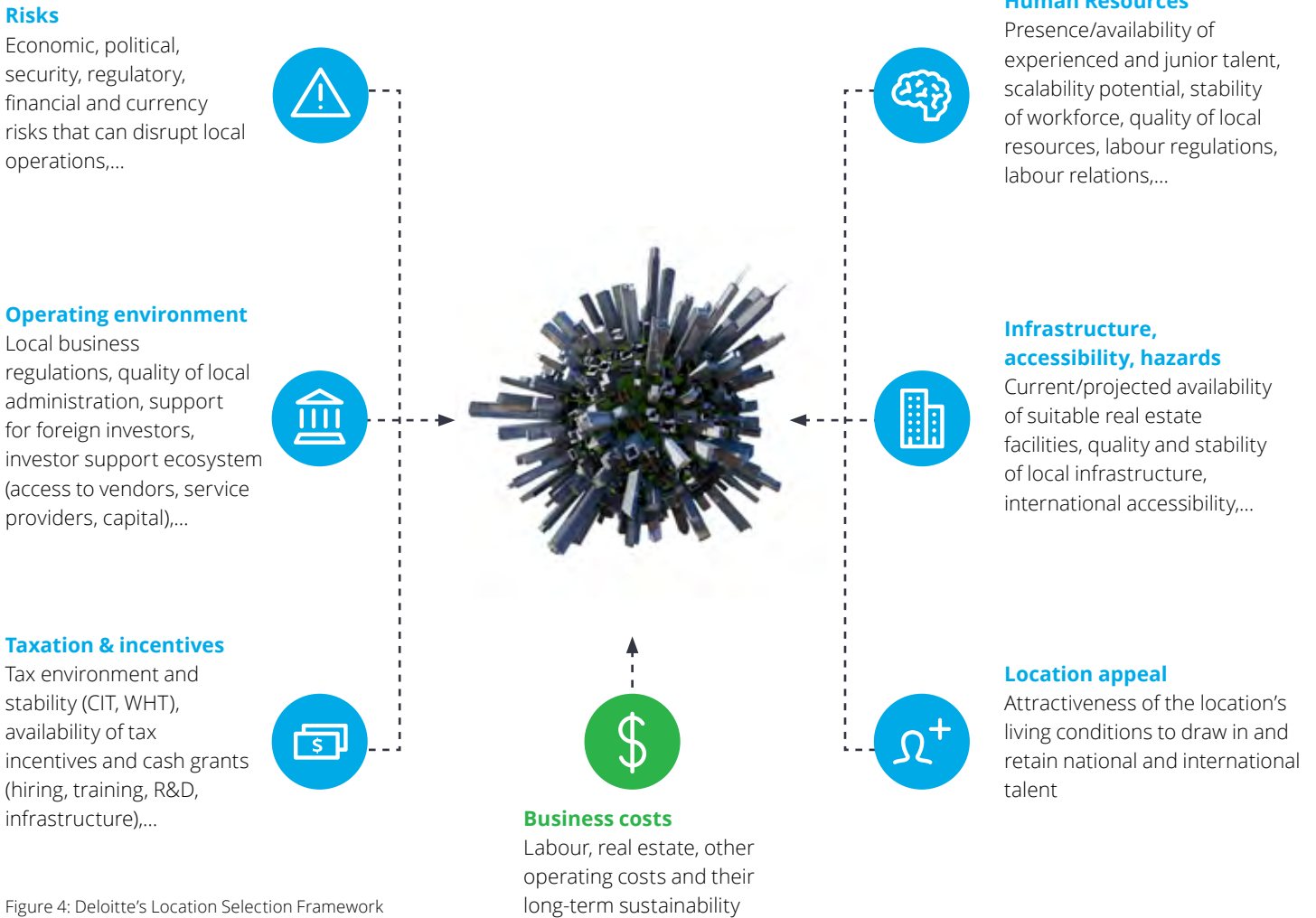


Figure 4: Deloitte's Location Selection Framework

Performing a detailed location assessment on more than 3 or 4 locations is both time consuming and cost inefficient. Our experience shows that the best value driven from this process is through brief field investigations of a short list of most viable location options (Step 2 of the process represented in Figure 2). Deriving efficiently to a defensible short list is a key part of a location selection process. The business fit index based location assessment simplifies the task of narrowing the list to the most suitable options.

Using this fact-based approach enhances the soundness and analytical rigour of the conclusions and helps with the internal buy-in from the highest levels of the internal decision makers.

Selecting GBS location in practice

To illustrate this process, let us look at a recent GBS location selection project we advised on. During the initial stages we identified the long list of potential options using our location discovery accelerators, recent trends and field experience. We narrowed the global list of all locations to a long list of 8 locations. The locations were filtered out based on proximity to the client's home-base operations, talent pipeline's potential, cluster maturity and cost effectiveness potential.

Key GBS project stakeholders were consulted on their priorities regarding the location selection criteria. This ensured the early buy-in from project stakeholders. We consolidated and analysed client's input to derive common themes and criteria. Based on our expert calibration and best practices with similar projects, a final list of location selection criteria was identified (see Figure 5).







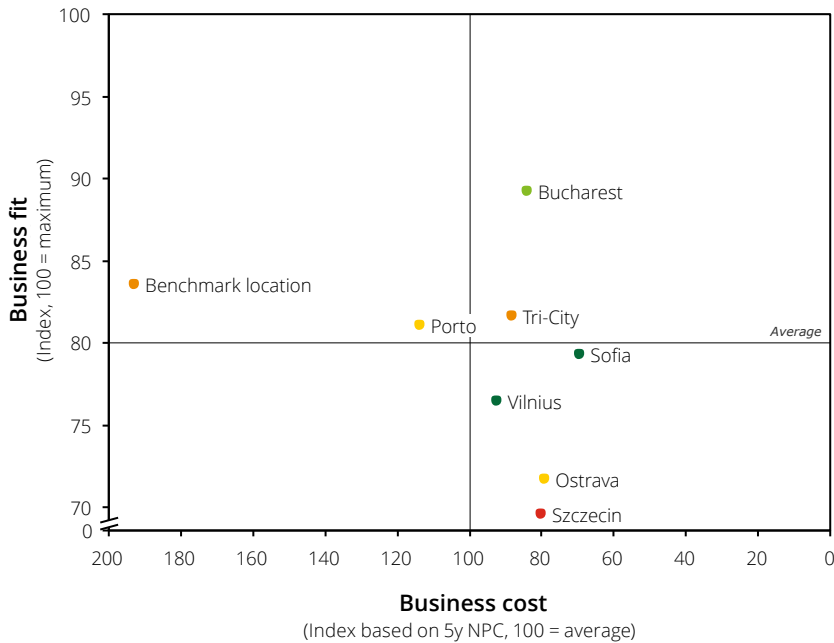
Dimension	Location selection criteria (used for business fit assessment)	Weight
	Risks • Political stability	10%
	Human resources • Availability of general and specific tertiary education graduates • Availability of relevant junior and experienced process skills • Availability of (relevant) language skills • Labour regulations and practices (firing, hiring, working time) • Labour fit (cultural proximity to markets served)	40%
	Infrastructure, accessibility, hazards • Suitable facilities availability (6-12 months) • Quality of telecommunications infrastructure • International airway connectivity	20%
	Operating environment • Relative absence of corruption	10%
	Location appeal • High quality of life appreciation for nationals • Local public transport network quality	15%
	Taxation & incentives • Tax policy stability	5%

Figure 5: Example of weighting and final list of critical selection criteria used in a client-specific location assessment

The resulting business fit index was plotted against the business costs index based on a 5 year net present value of labour and real estate costs in each of these locations. Adjusting the business cost for productivity and expected wage inflation would render a more accurate picture. To identify the short list, a company needs to seek the right trade-off between the acceptable level of the business fit of a location and the sought for cost arbitrage.





Talent environment: Least favourable ● → ● Most favourable

Figure 6: Example of trade-off analysis plotting business fit and business cost of client location candidates to identify the short list (H1 2017)

Figure 6 graph's Y-axis plots the business fit index of these locations vis-a-vis the GBS project requirements on a 100-point scale with 100 being the maximum. Based on the business fit index scores, Bucharest and the benchmark location in the host country have emerged as the strongest candidates. The locations were then plotted against their 5-year net present value of operating costs, whereby 100 represents the average value. The locations on the right of the 100 line offer cost levels below the average of the analysed options. Central and Eastern European locations offer lower cost options but the variation is still within a 15% range. The most optimal trade-off options appear to be Bucharest (Romania) and Tri-City (Poland) from both fit and cost perspectives. However when additional HR aspects are incorporated into the analysis, such as presence of specific functional skills in required volumes, time to ramp-up, war for talent, short-term growth capacity or presence of specific foreign language skills, the results yield a different picture (represented as coloured dots on the graph). From this additional perspective, Sofia (Bulgaria) and Vilnius (Lithuania) presented as more viable alternatives to Tri-City.

An important consideration to be made is that location trade-off results can vary from project to project or even from company to company. Differences may result from criteria or weight attributed to various criteria or dimensions in the analysis, location options considered.

Our experience shows that the best approach to validate the short list is through field based due diligence together with the executive team involved in the GBS project. This field based validation allows companies to make an informed location choice and be comfortable to defend this choice at the highest levels of the organisation.

The business fit index has additional benefits to supporting with the GBS location choice. In ever evolving locations, the corporate leaders can use it to monitor and benchmark the fit of each GBS location within the wider global footprint. This objective indicator can help leaders monitor risks and plan for the future growth across their global footprint.

What to expect from a location consultant?

GBS projects are about business model transformation and are significant investment projects impacting all throughout corporations. As illustrated earlier, selecting the right location (or vetting of existing sites) is critical to the success of any GBS initiative. But then, so is picking the right location selection team.

In-house resources can and should certainly contribute to the location journey. Yet the cost of setting-up GBS in a location that eventually might not support the centre's level of ambition warrants specialist support. Such specialists can:

- Help identify potentially better location solutions beyond the commonly held, subjective views.
- Speak to the GBS footprint options and help develop feasible GBS service delivery models.
- Draw on robust methodologies that will ensure that all relevant criteria are considered.
- Drive stakeholder consensus and provide neutral advice on where to locate.
- Ensure the longevity of the eventual location decision.
- Recommend strategies and tactics to mitigate the optimal location's flaws (no location is perfect).
- Accelerate both the site selection and the implementation process by drawing their vast network of local contacts globally.
- Leverage their reputation to position a GBS project for potential incentives.
- Protect the confidentiality of the client to allow discrete information gathering without their identity or strategy becoming known by the GBS project team.

About the authors

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Global Location Strategies is Deloitte's Centre of Excellence offering location strategy, footprint optimisation and site selection services. It helps corporations clients identify the most optimal locations for manufacturing, distribution, R&D, shared services/ GBS, HQ or data centre operations. It conducted over 100 shared services and GBS engagements globally over the last 10 years.

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