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COVID-19 drives changes in the Business Service Sector (BSS)

Discussion Points

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The importance of a global location strategy

Within a short period, the COVID-19 crisis has become the most serious political and societal challenge of our time. The economic consequences of the pandemic shockwave have impacted businesses around the globe with supply and value chain disruptions, massive lay-offs, and shutdowns at hundreds of sites. With some of these changes in the business landscape potentially permanent, business service providers must now reconsider their global location strategy and assess their resilience in the face of unexpected shocks. While the crisis puts decision-makers under enormous pressure, it also creates opportunities by forcing companies to accelerate their transition towards more agility in ensuring business continuity and crisis recovery when they meet other disruptive events in the future.

Implications of COVID-19 for BSS

‘Putting all your eggs in one basket’ may never have seemed riskier than in times of sudden travel bans, trade barriers, and remote work policies. The COVID-19 crisis has **exposed the fragility of Business Service Sector locations around the globe**, which were found wildly unprepared for an event that required immediate changes in leadership style, agility, prior investment, infrastructure, and the ability to adapt digitally. In addition, **variable readiness and response measures between countries** highlighted the importance for multinational companies to look at **diversified geographic models** to mitigate the impact from regions that could be heavily affected now or in the future.

As a result of the global crisis, business service providers will need to **reevaluate their existing global footprint across all locations** and find the right split of activities/functions, weighing the specific risks and benefits that result from a **centralized hub structure** (operational consolidation vs. single-source dependence) **against a diversified satellite structure** (greater flexibility vs. operational redundancies).

It will be key for their (new) location strategy to assess some location factors **more critically than before and add new factors** that result from the crisis. The **optimal model will be unique** to each enterprise and depends on its specific goals and sensitivity to specific risks.

Global location strategy is key

While a resilient location strategy can achieve significant cost arbitrage and improve efficiency in general, the importance of **aligning corporate strategies with business geographies and optimizing footprints** becomes clear when **sudden, unexpected events** like COVID-19 and Brexit before it, as well as trade wars and natural disasters **shake up different international markets**.

In times like these, an efficient **location strategy is key to business continuity** by not only **lowering costs**, but also ensuring **access to more resilient markets**, offering greater **operational flexibility and reliability**, and ensuring **rapid access to all links in the value chain** in case of unexpected adverse events.

Critical Location Factors (CLFs)

The essential aspects that usually drive informed choices about locations can be grouped into five **Critical Location Factors (CLFs)**: Talent, Business Climate & Risk, Accessibility, Infrastructure & Real Estate, and Cost (see Figure 1). **These CLFs form a central part of the typical location selection process**, in which each CLF and sub-CLF is given a relative weight depending on company-specific priorities or goals.

However, the COVID-19 pandemic now **demands business leaders reevaluate their CLFs across their global locations**. In order to uncover potential pitfalls due to the crisis that could jeopardize business continuity and develop the agility to respond quickly, business service providers need to **examine some CLFs more critically than before and add new sub-factors** when defining their (new) footprint strategy.

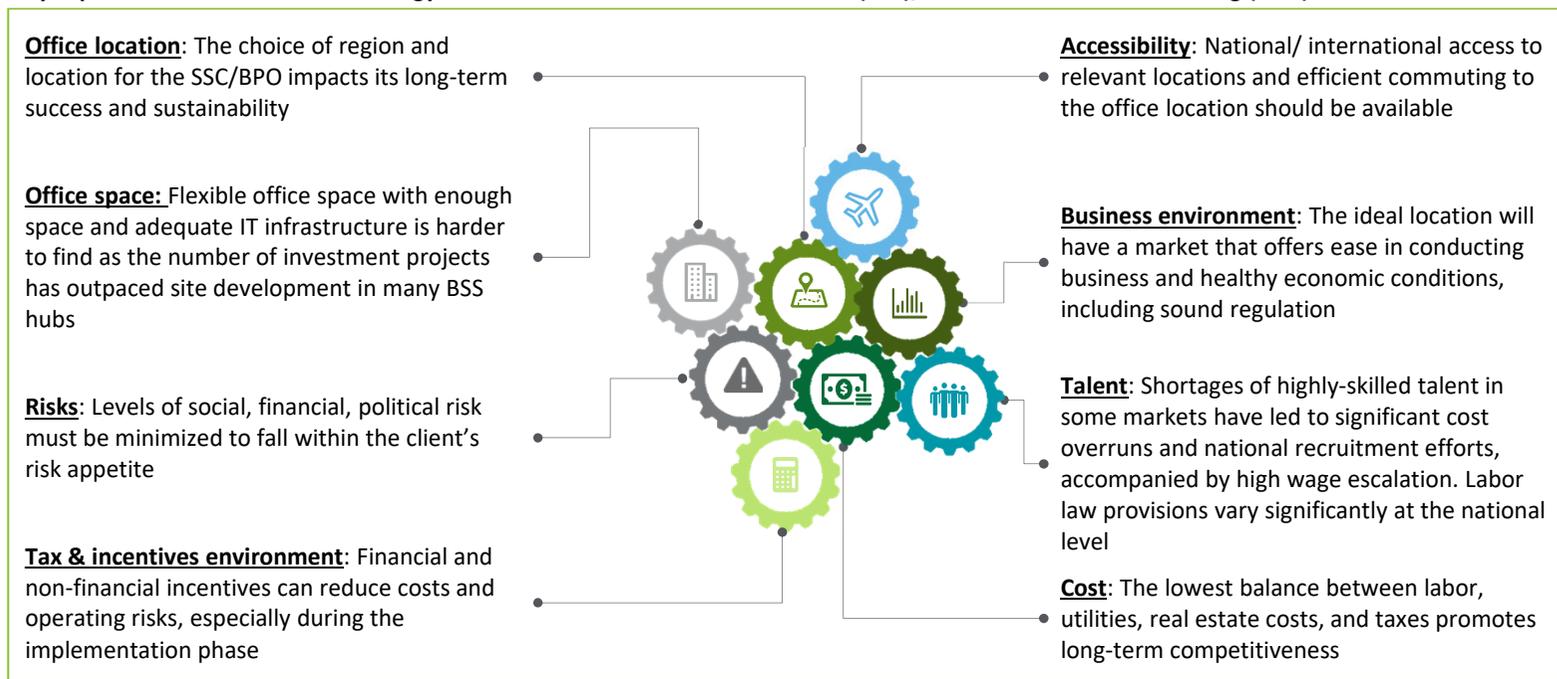
Figure 1

Critical Location Factors (CLFs)

-  **Talent**
 - Workforce size and availability
 - Educational pipeline
 - Demographic trends
 - Labor regulation
-  **Business Climate & Risks**
 - Rule of law and regulatory burdens
 - Social and political risks
 - Macroeconomic and financial risks
-  **Accessibility**
 - Access to/from key markets
 - Access to/from key subsidiaries
-  **Infrastructure & Real Estate**
 - IT and utility infrastructure
 - Traffic infrastructure
 - Real estate market conditions
-  **Cost**
 - Operating cost arbitrage (labor, real estate, tax, incentives and grants...)

Figure 2

Key aspects covered in location strategy assessment for Shared Service Centers (SSC)/ Business Process Outsourcing (BPO)



Typical location assessment in the business services sector

The location selection process usually requires a thorough analysis of CLFs to reach the **optimal balance between operating conditions and costs**. While the prioritization of location factors depends on specific company goals and conditions, **once overarching cost objectives are met the primary focus areas for business service providers are:**

- 1) **Talent** is the dominant factor in the location choice for business services, with the success of business services largely dependent on the availability of experienced and fresh talent, education (reflected in the presence and quality of universities and local employers/competitors), and relevant language skills. Labor regulation and the union environment also influence the human capital factor, as do demographic dynamics.
- 2) **Business environment**, including the level of peer presence as a vital source of talent and an indicator of the ease of doing business. The level of bureaucracy and access to market institutions are likewise key in a pro-business environment.
- 3) **Risks** in the way of FDI activity, including political risks (e.g., changing governments, the influence of extreme political positions), economic risks (e.g., structural risks, stability of the financial system, level of public debt), and social stability risks (e.g., social inequality, frequency of strikes, crime).

4) **Office location**, including the ideal macro-location with quality infrastructure, international access to relevant cities in different geographies, and an attractive expat environment. For BSS, the optimum micro-location with reliable public transport connections and an attractive neighborhood with food and leisure options is key to becoming an employer of choice. Local commuting patterns vary by location and need to be analyzed individually. In selecting the office location, the quality of the local IT infrastructure, e.g., broadband connections and the telecommunications network, also plays an important role.

5) **Office space**, because it represents a significant position on the company P&L, implying substantial value creation potential. In the very transparent business services market, with similar jobs and functions between competitors, office space is an important differentiator to attract talent and required in competitive BSS markets. Office space also includes an adequate IT infrastructure.

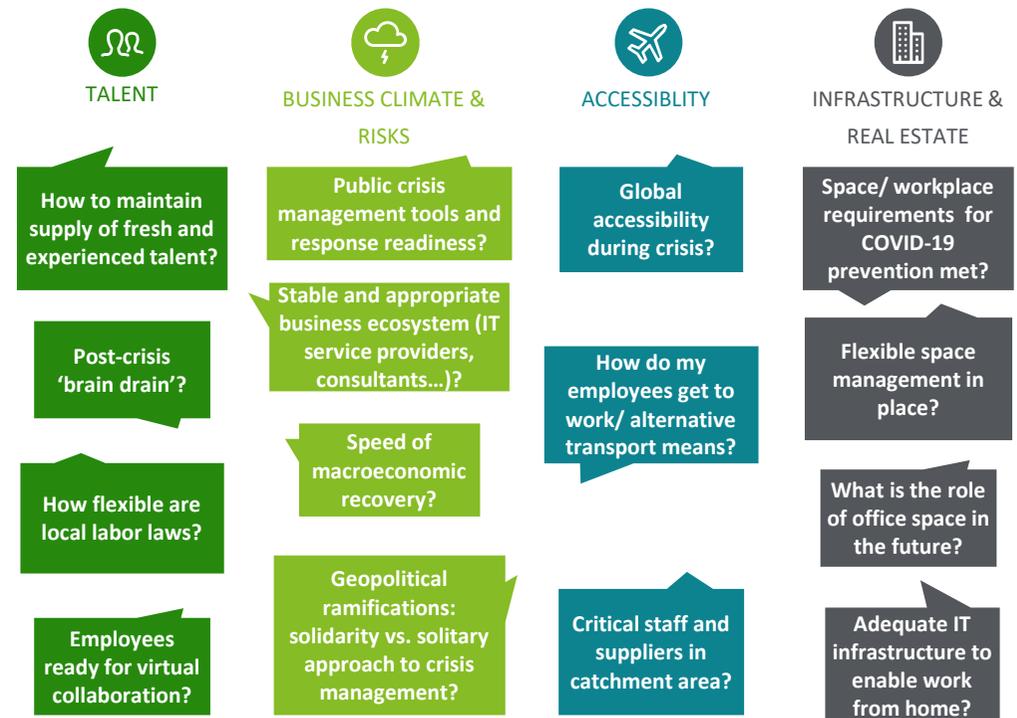
6) **Accessibility**, because national/ international access to relevant locations must be ensured and the local transport infrastructure should allow employees to reach the office location efficiently (public transport, quality of roads).

7) **Tax and incentives** environment, as the corporate tax rate represents a relevant cost position and because international tax systems allow for cost optimization in terms of tax reductions. Incentives can also be part of the decision to improve the value cost proposition, as incentive programs and volume vary by location.

Location assessment in the business services sector during COVID-19

The COVID-19 pandemic has uncovered new uncertainties for business service providers, which need to be critically evaluated and addressed in order to maintain service levels, recover from the crisis more quickly, and ensure a more resilient footprint. As a result of the crisis, business leaders and their advisors will need to reevaluate some of their CLFs and assess some new factors across their global locations (Figure 3).

Figure 3
CLFs and current location-related uncertainties for business service providers during COVID-19



CLFs and current location-related uncertainties for business service providers during COVID-19

(Figure 3 continued)



Talent

- **How to maintain the supply of fresh and experienced talent?**
 - Access to required number of graduates, duration of university shut-downs
 - Ability to conduct interviews for new candidates, candidates' responsiveness to entirely digital recruitment process
 - Onboarding training potentially impossible
 - Training for current staff not possible in person
 - Tightness of labor market, ability to meet potentially increased need for staff to cover functions from other, heavily affected locations
 - Ability to recruit staff from outside the usual catchment area due to increasing remote work
- **What is the local risk of post-crisis 'brain drain'?**
 - Talent flight in severely impacted regions/ countries due to health or economic concerns
 - Loss of knowledge carriers impacts day-to-day operations
- **How flexible are local labor laws?**
 - Options like short-time working or other government compensation programs
 - Legislation regarding reduced hours, arranging vacation, pay cuts, bonuses...
 - Flexibility in labor laws to reduce job redundancies, restructure employment, cut cost inefficiencies
 - Regulations about protected leave or paid benefits during absences, government support and relief schemes
- **Are my employees ready for virtual collaboration?**
 - Challenges relating to cultural diversity
 - Trust between members of virtual teams



Business Climate & Risks

- **How mature are public crisis management tools and response readiness?**
 - Measures and speed of crisis management differ between regions, e.g., high response readiness for COVID-19 observed in Taiwan and South Korea compared to Italy and New York
 - Economic repercussions are not yet clear and depend on the nature and effectiveness of different approaches; the impact on overall business climate will vary
- **How stable and appropriate is the local business ecosystem?**
 - Stability of business ecosystem with strong potential partners to survive and recover from crisis
 - Presence of IT service providers to implement digital strategies
 - State of health and social services, infrastructure services, policing authorities
 - Presence of other consultants and experts, are best practices shared?
- **What is the speed of macroeconomic recovery?**
 - Different pace of macroeconomic recovery and severity of economic impact between regions
- **What are the geopolitical ramifications: solidarity vs. solitary approach to crisis management?**
 - Government actions impacting business climate (border closures, travel bans, trade embargos...)
 - Which countries continue to promote cross-border cooperation even in a crisis and which ones isolate and receive sanctions (e.g., isolation in Poland, Czech Republic, Hungary in refugee crisis)?
 - Which countries ensure the exchange of goods and services even during a crisis?



- **How stable is global accessibility during the crisis?**
 - Reassessing the importance of being reachable from different parts of the world, even during a crisis
 - Reassessing the impact if access to offshore location is disrupted – on day-to-day service delivery, project work, exchange with other subsidiaries, expats ...
 - Critical functions covered in near-shore locations to avoid dependence on air travel?
- **How do my employees get to work/ alternative transport means?**
 - Varying accessibility within cities/regions leading to consideration of alternative locations, e.g., near highway or train station
 - Is the location dependent on just one mode of transport (e.g., metro) and how reliable is it?
 - Risk of public transport strikes
 - Local commuting times and patterns impact employee flexibility, i.e., if and how they can get to the office during a crisis
- **Do I have critical staff and suppliers in the catchment area?**
 - For the right location, it is key to understand where employees live and how willing they are to commute
 - Proximity of points of interest (cafés, shopping malls, ...) for BSS staff becomes even more important if the radius of movement is limited during a crisis
 - Operating during a state of emergency requires critical staff to be able to reach the office at all times



- **Are space/ workplace requirements for COVID-19 prevention met?**
 - Appropriate space for working during infectious disease crisis (sufficient distancing possible, air circulation, etc.)
 - Flexible workplace and furniture options as well as mobile work regulations in place
 - Provisioning of hygiene measures ensured
- **Do I have flexible space management in place?**
 - Adaptability of office space, adequate space can be used by various business functions if needed
 - Sufficient space flexibility to host colleagues from other locations in addition to own staff
 - With the trend towards multi-local work culture, the issues of corporate identity, activity-based space concepts, collaboration models, and neighborhood come into focus
- **What is the long-term role of office space for my organization in the future?**
 - Countries have different maturity levels when it comes to remote working, some locations face a more drastic change in working behavior and office use, with impact on future space demands
 - Locations need to be assessed regarding their local real estate portfolio, lease terms, and termination dates, as well as their flexibility to adapt the overall space to new demands
 - A hybrid approach to remote work leads to different requirements regarding location, space demand, commuting patterns, design, and office concepts
- **Is the local IT infrastructure adequate to enable work from home?**
 - Countries and regions show heterogeneous IT infrastructure standards
 - Local IT infrastructure and connectivity needs to ensure remote working without disruption to services, such as unstable internet connections, choppy video or voice conferencing, inconsistent or incompatible use of apps and software
 - As digital traffic reaches new peaks, additional space for back-up server rooms might be needed
 - Existing and future locations need to be assessed regarding their readiness for communication, documentation, time tracking, file sharing, and project management on a virtual basis

Conclusion –outlook on location assessment in the business service sector

The COVID-19 pandemic has uncovered new uncertainties and pitfalls for business service providers that could jeopardize business continuity. These factors will need to be addressed in an informed BSS location decision and will **change the way business service providers assess locations** as a result. **While Talent as a key CLF will remain the dominant focus in BSS location assessments overall, the relative importance between the primary CLFs will shift, different sub-factors within the CLFs need to be examined more critically, and new sub-factors will emerge in location assessments.**

- Overall, **Talent will continue to be a key factor** in location choices for business services. Ensuring business and service continuity amidst the crisis will require even more relevant skills and experience, as well as employer-friendly labor regulations. **Within the Talent CLF, more focus will be placed on labor law flexibility** as a result of the crisis.
- Due to the **critical importance of infrastructure aspects** in the crisis, the **Infrastructure & Real Estate CLF and some of its sub-factors will gain significantly in importance**, with especially infrastructure quality to sustain multi-local work emerging as an important aspect. In general, the role of office space will be newly defined in the future. Future space demands will be highly dependent on the operating model (traditional office, remote work, or hybrid), leading to new requirements in terms of office layout, location, and commuting patterns.
- **Business Climate & Risks will remain a relatively stable and important** driver for BSS location decisions. A shift in focus within this factor will be mainly driven by **risks related to approaches and measures in public crisis management**.
- **Accessibility continues to be less critical** for BSS location decisions. Within this factor, the focus will shift to **micro-location aspects** to mitigate business disruptions.

Overall, **COVID-19 will change the way location factors are weighted in BSS location assessments**, with certain CLFs and sub-CLFs becoming more important. How strongly the shift in importance occurs will differ **for and within** each CLF (Figure 4).

Figure 4

Due to the crisis, CLFs need to be examined more critically during the location strategy decision process



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