What’s next in shared services location strategy?

In today’s shared services and global business services (GBS) environment, the dynamics are ever-changing. The adoption of shared services and GBS is on the rise. At the same time, the list of locations able to support increasing language skills and technology demands is shrinking. As a result, organizations are taking a deeper look at their location strategy. Historically, cost has been the primary measure of value in location decisions. But cost-based decisions can be short-sighted in an increasingly complex shared services landscape affected by the evolving global political scene and impending tax regulations. In fact, a location strategy of calculated coexistence within markets can deliver better results than out-spending the competition. Crafting such a strategy requires the appropriate level of due diligence to determine if a location is a competitive, environmental, cultural, and operating cost fit for the company.

How has the global landscape for shared services locations changed over the past few years? What’s next?

The number of organizations with shared services and business process outsourcing (BPO) models has increased to the point that many locations have become saturated or face mounting cost pressures. Many organizations have a regional footprint, with centers in each of the global regions they serve, as well as at least one global center where processes are conducted in English. As saturation and complexity increase, many are asking: Where does shared services go next?

I believe we are moving beyond cost-centric strategies to broader location approaches. Technology disruption—including robotics, voice recognition, and text recognition—may indeed provide automation-based cost savings. These same advances may also reduce pressures on the talent market at the lower levels. But there’s more to consider. It’s time to view shared services locations through a different lens. The new frontier challenges us to look at cost, yes, but to then look deeper. This may mean seeking out global technology hubs where a highly sustainable, technical workforce is in place rather than fixating on cost alone. For example, the increasing interest in Poland for technology shared services centers is not because it is a less expensive option compared to India, the Philippines, or even China. Rather, Poland offers a highly skilled, multinational workforce and high levels of cyber security, at a cost point that remains lower than Western Europe.

What are some common mistakes organizations make in shared services location selection?

One of the biggest mistakes in making location decisions is focusing too intensely on cost without careful consideration of operating conditions. One such approach is to leverage existing real estate to co-locate shared services with manufacturing operations. A strategy of chasing non-existent synergies while seeking a use for incompatible real estate is ill-advised. A better approach is to seek the appropriate location for the specific function, but use the manufacturing location as a comparator in the assessment.

Another miscalculation organizations sometimes make is “following the herd”—locating in a city where others have been successful over a long period of time through investment and engagement. This approach often leads to issues with labor availability, attrition, and escalating
costs. One example of following the herd? Finding a crowded marketplace and assuming you can buy your way in. Organizations can end up spending 30 percent to 40 percent more than anticipated this way, simply because they engaged competitors around price.

Following the herd also leads to talent challenges by attracting employees who are interested primarily in compensation and not engagement or development. These employees typically are the first to move on. Engaging in salary wars rarely benefits the organization or its competitors. Once they start, they’re difficult to stop. Successful coexistence and cohabitation within a market is a much better approach because it helps support the market ecosystem already in place.

How can organizations best avoid these pitfalls?

One of the most important things we have learned in our shared services work is not to underestimate the value of performing due diligence in talent markets. As the opportunity to pioneer new locations diminishes, due diligence is even more important. Businesses must understand the competitive environment they are entering as well as the supply-vs-demand equilibrium. They have to determine how to coexist with incumbent employers who are recruiting the same type of talent in that market.

That means asking some strategic questions about the market, like: Who is the employer of choice? What type of people they are hiring? Where are they finding that talent? Answers to these questions can inform successful strategies for coexistence with incumbents. Such a strategy may mean accepting the costs of becoming a market’s employer of choice. Or it may instead mean positioning the business as a well-respected employer who may pay a bit less, but is considered a great place to work.

The process of due diligence is highly collaborative. It takes understanding, interviewing, and talking to other companies, recruiters, and universities to determine how your organization can successfully enter the market without negatively impacting it. There are myriad stories of companies entering markets with big offers, causing turnover, then falling victim to the mercenary talent culture they had a role in creating.

Proper due diligence also goes beyond demographics. A deep understanding of market dynamics and suitability requires time spent in the market, learning the nuances and complexities at play in the existing ecosystem. This on-the-ground approach can provide clarity around how a company’s entrance into a market.

In our work, we immerse ourselves in the field and in the market, engaging with local players. Meetings with a location’s government officials, incumbent employers, and recruiters provide valuable context. We also collaborate with universities who are responsible for producing the type of employees and skills profiles our clients are looking for. Finally, we examine and challenge our findings from many angles. The result is a strategy that helps our clients to go into a market with their eyes wide open—a market that is a competitive, environmental, and cultural fit.

In the end, a successful location strategy balances a variety of factors, including operating conditions; talent availability, sustainability, and access; physical infrastructure; and risk. Of course, cost is an important piece of the puzzle too. It just shouldn’t be the only piece on the table.