Location Selection for Setting a Shared Service Center
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• On Shared Service Centers
  • Location Strategy 2.0 - Our perspective
  • Approach to select optimal Location Strategy
4 levers needed to create (and continuously improve) a high performing shared service center

- **Mix of ownership model (e.g., captive, hybrid, third party)**

**Consolidation and locations**
- Local-regional-global mix
- Consolidation in regions
- Low-cost country leverage
- End-state supply footprint

- **Governance and contracting**
- Lean
- Demand management
- Automation

**Management and operational practices**
- Site comparison (cost, quality, and productivity)
- Inter-site variation in practice maturity

**End-to-end processes**
- **Sourcing**

**Site role and performance**

**Primary levers**
- **Enablers**
- **Detailed further**

Optimize shared-service network for:
- Cost and productivity
- Customer experience
- Risk and resilience

SOURCE: McKinsey
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• On Shared Service Centers
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Our perspectives on Location Strategy 2.0

<table>
<thead>
<tr>
<th>Overall portfolio trends</th>
<th>1. <strong>Significant volatility in cost economics and risk profiles</strong> of existing and emerging locations driven by structural macroeconomic factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. To <strong>minimize network risk</strong> and flexibility, several large firms are <strong>expanding footprint</strong> to at least 2-3 countries</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Site choices</th>
<th>3. New <strong>scale delivery locations getting established</strong> e.g., Philippines, Poland and several emerging countries e.g., Vietnam, Argentina, Colombia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4. Interesting <strong>alternates such as nearshoring</strong> and emergence of tier 2/3 cities as country risk becomes localized as city risk (for large hubs)</td>
</tr>
<tr>
<td></td>
<td>5. Organizations are building competency based capabilities in specific locations building towards a more networked, balanced delivery model</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Site strategy</th>
<th>6. Beyond city-specific <strong>threshold size levels</strong>, O&amp;O centres show <strong>diseconomies of scale</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7. <strong>Integrated centers</strong> (across similar skill categories) demonstrate <strong>better performance</strong></td>
</tr>
</tbody>
</table>

| Offshore unit performance | 8. Best-in-class centers have actually reduced costs through excellence on end to end process delivery, productivity, team lead attrition that are **better determinants of customer satisfaction** |

SOURCE: McKinsey
1 Significant changes in cost economics and risk profiles of existing and emerging locations

- Macroeconomic factors and environment mostly stable. Return of double-digit growth in O&O industry, currency appreciation & inflation could drive costs up 10-15%
- Lower costs due to nearly 30% fluctuation in exchange rate

SOURCE: McKinsey LRI database
Uncontrollable macroeconomic factors can exhibit substantial volatility leading to uncertain O&O business cases.

### India

<table>
<thead>
<tr>
<th>Factor</th>
<th>Development</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage inflation</td>
<td>+11 PP</td>
<td>-11%</td>
<td>+6%</td>
<td>+9%</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>+26%</td>
<td>-6%</td>
<td>-5%</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Oanda; press; Global Insight (WMM)

### Poland

<table>
<thead>
<tr>
<th>Factor</th>
<th>Development</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage inflation</td>
<td>-5.7 PP</td>
<td>+1.4%</td>
<td>+1.1%</td>
<td></td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>+38%</td>
<td>-7%</td>
<td>-1%</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Oanda; press; Global Insight (WMM)

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1 Based on trends observed till 31st Oct, 2010
Hence to reduce network risk, more large companies are globalizing their footprints.

More globalized country footprint

<table>
<thead>
<tr>
<th>Year</th>
<th>1-2 countries</th>
<th>3+ countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>2009</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>2011</td>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

# of companies in the sample

100% = 44

Source: McKinsey LRI database

Share of growth in seats for BPO and ITO

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Other locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>2009</td>
<td>42</td>
<td>58</td>
</tr>
<tr>
<td>2011</td>
<td>~45</td>
<td>~55</td>
</tr>
</tbody>
</table>

Estimates

Source: McKinsey LRI database
65% of CxOs surveyed believe near-shoring could be an integral part of global delivery

Newer network architectures are emerging

<table>
<thead>
<tr>
<th>Location Archetypes</th>
<th>Description</th>
<th>Customer examples</th>
<th>Illustrative details</th>
</tr>
</thead>
</table>
| A World Factory     | Single or few large sites for delivery  
lood site providing economies of scale | JPMorgan Chase | Large concentration in Tier-1 locations of early off-shoring destinations (e.g., Mumbai, India) |
| B Local for local   | Multiple sites of service delivery, with close proximity to customers/markets  
Sites mapped onto demand locations | BOSCH | Extensively leveraged close shoring in Europe to save on cost and gain market access |
| C Regional factories| Service delivery spread across several locations to utilise specific location advantages for each process step  
Delivery sites customised to supply | HSBC  
EMC | Leveraged mix of onshore and offshore locations depending on customer needs |
| D Hub & Spoke       | Service delivery value chain split into two parts:  
- Single locations (Hubs) providing benefits of scale and differentiating capabilities  
- Multiple locations (Spoke) linked to the Hub providing flexibility and customer proximity | Honeywell  
orange | Honeywell has established business analytics hub in India with multiple spokes across client locations  
Orange developed Egypt as hub with spokes in Eastern Europe |
| E Balanced Web      | Several sites of service delivery, with each site having independent delivery capability  
Sites balance out the risk of currency and talent between each other | | Nascent model, no established examples as yet |

SOURCE: McKinsey
Beyond threshold levels, O&O sites show diseconomies of scale
Cost performance analysis by center size

SOURCE: P360 data, team Analysis
What ensures high customer satisfaction for offshore units?
Based on data across 70+ O&O units

<table>
<thead>
<tr>
<th>What does not ensure</th>
<th>Top quartile</th>
<th>Bottom quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Team leader span of control</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>2 Agent attrition</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>4 Monthly SLA compliance</td>
<td>4.1</td>
<td>4.0</td>
</tr>
<tr>
<td>6 Proportion of fresh hires</td>
<td>4.0</td>
<td>4.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What ensures</th>
<th>Top quartile</th>
<th>Bottom quartile</th>
</tr>
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<tbody>
<tr>
<td>7 Proportion of end-to-end process delivered</td>
<td>4.5</td>
<td>3.7</td>
</tr>
<tr>
<td>3 Team leader attrition</td>
<td>4.4</td>
<td>3.7</td>
</tr>
<tr>
<td>8 Annual productivity improvement</td>
<td>4.5</td>
<td>3.5</td>
</tr>
<tr>
<td>5 Time to ramp up</td>
<td>4.5</td>
<td>3.8</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey P360° benchmarking
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- On Shared Service Centers
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Location selection process involves filtering most relevant locations and identifying 2-3 most attractive locations after detailed analysis.

- Initial long list of location should be made considering:
  - Demographic and economic advantage (e.g., working age population, GDP per capita)
  - Opinion expressed by internal stakeholders and external expert sources (e.g., reports on locations)

- Shortlist of locations should be done after applying following criteria:
  - Geopolitical risk in a location
  - Ensure coverage for all business location (e.g., language requirement, specific skills)
  - Existing vendor and in-house center location
  - Future skills requirements

- Do a detailed assessment of shortlisted location by evaluating them on key criteria:
  - Cost
  - Talent pool
  - Key risks
  - Environment
  - Quality of infrastructure
  - Sector maturity

High level evaluation

Detailed evaluation

Select 1-2 “preferred location” and shortlist 2-3 “back up locations”
Location readiness is assessed in 6 dimensions (for detailed evaluation)

- Government support
- Business and living environment
- Accessibility
- Living environment

- Cost
  - Labor cost (fully loaded for different data, voice, knowledge, and IT service lines)
    - Infrastructure cost, IT and bandwidth cost, SG&A

- Environment
  - Geopolitical
  - Regulatory risks
  - Country investment risks
  - Data protection

- Key risks
  - Maturity of IT/BPO industry

- Sector maturity
  - Talent pool for:
    - Engineers
    - MBAs
    - Other specialized degrees (math, physics, or statistics)
    - Generalists:
      - With needed language skills
      - No particular language skills
    - Support staff

- Quality of infrastructure
  - Telecom/IT
  - Real estate
  - Transportation
  - Power

- Talent pool
  - Maturity of IT/BPO industry
Key topics to be considered for each dimension (1/6)

Cost
- Clear understanding of corporate tax rate (gross + deductions)
- View on government incentives (VAT exemptions, infrastructure support, training grants, land subsides)
- Setup upfront investment (fully loaded)
- Detailed view of operating cost (fully loaded – direct & indirect labor costs, facilities, IT/Telecom and G&A)
- Past evolution of cost drivers
- Past evolution of productivity
- Trends for cost drivers
- Macroeconomic factors (Recent evolution & trends)

Ensure current costs are in time with your expectation

Gain confidence cost will remain an asset in the future
Key topics to be considered for each dimension (2/6)

- Cost
  - View on existing shared service centers
    - Number of companies
    - Functions
    - Number of seats
  - View on existing models operating in the market
    - Capture
    - Shared/Blended
    - Outsourced
  - Recent evolution & trends in the industry
    - Seats evolution (as a proxy of quality)
    - Expected entries by companies
    - Expected entries by vendors

- Environment
- Sector maturity
- Key risks
- Talent pool
- Quality of infrastructure

Saturation/Opportunities
Key topics to be considered for each dimension (3/6)

- **Cost**
- **Environment**
- **Sector maturity**
- **Key risks**
- **Quality of infrastructure**
- **Talent pool**

**NOT EXHAUSTIVE**

- Clear view on readiness to hire (hard factors)
  - **Availability**: number of fresh graduates with right qualification per annum
  - **Suitability**: Skill sets, language fluency, IT knowledge,…
  - **Accessibility**: Mobility to relocate talent
  - **Willingness**: lead of attractiveness of “BPO” industry for graduates

- Clear view on potential alternatives (trainability in 1-3 months for not suitable pool)

- Clear view on critical drivers
  - Willingness to understand the expectations of regional staff
  - Adaptative toward demands of work
Key topics to be considered for each dimension (4/6)

- Cost
- Environment
- Sector maturity
- Key risks
- Talent pool
- Quality of infrastructure

NOT EXHAUSTIVE

- Quality of telecom and network service
  - Uptime of end-to-end network
  - Mean time to restore

- Real state
  - Availability of “quality” (your quality) real state
  - Vacancy rate of “your quality” space

- Quality of power supply

- Providers competitive dynamics
  - Providers service track record

Qualitative sanity checks
Key topics to be considered for each dimension (5/6)

- Key risks
  - Cost
    - View on regulatory risks (Will my business be interrupted or affected by unpredictable regulatory and bureaucratic environment?)
      - Transparency of law/regulation
      - Fairness of legal system (“independence”)
      - Bureaucracy (“favoritism”)
  - Environment
  - Sector maturity
  - Talent pool
  - Quality of infrastructure
    - Data protection (“protection” of data & intellectual property)
  - View on country investment risk (Does the location have a strong macroeconomic environment that will protect the viability of my financial investment in the country?)
    - Macroeconomic stability
    - Currency fluctuation
Key topics to be considered for each dimension (6/6)

- Cost
- Environment
- Sector maturity
- Key risks
- Talent pool
- Quality of infrastructure

- View on government support
  - Government policy towards forcing investment
  - Labor levers
  - Flexibility of regulation (for doing business)
  - Corruption

- View on business environment
  - Rating of overall business environment
  - Compatibility of business ethics/culture

- Accessibility (time difference, frequency of flights)

- Living environment (rating of quality of life, organized crime, reliability of police services)

NOT EXHAUSTIVE
How to go about it?

- Build up your model
  - Choose variables
  - Assign weights
- Leverage existing sources

<table>
<thead>
<tr>
<th>Cost</th>
<th>Sector maturity</th>
<th>Talent pool</th>
<th>Environment</th>
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<tbody>
<tr>
<td>KPMG’s Corporate Tax Rates Survey</td>
<td>Industry associations</td>
<td>Local government education statistics</td>
<td>DiongBusiness.org</td>
</tr>
<tr>
<td>Press search, local industry association</td>
<td>Press releases</td>
<td>Local government labor/employment statistics</td>
<td>Corruption Perception index Transparency International</td>
</tr>
<tr>
<td>Estimated based on P360 cost assumptions and inputs from external sources such as Watson Wyatt</td>
<td></td>
<td>Vendor interviews</td>
<td>World Economic Forum – Global competitiveness report</td>
</tr>
</tbody>
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<tr>
<th>Quality of infrastructure</th>
<th>Key risks</th>
<th>Environment</th>
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<td>Telecom regulations</td>
<td>World Economic Forum – Global competitiveness report</td>
<td>DiongBusiness.org</td>
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<tr>
<td>Companies such as CB Richard Ellis, Colliers, Jones Lang LaSalle, Cushman &amp; Wakefield</td>
<td>EIU Currency: risk rating agencies</td>
<td>Corruption Perception index Transparency International</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mercer - Quality of Living Survey</td>
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Key messages to wrap-up

1. Think big!! Think strategy first (objectives, network, levers, sourcing,…)
2. Funnel approach
3. Objectivity is king (sources are there to make it objective)
4. No decision without a detailed and quantitative business case
5. Go & see approach before taking decisions