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RESEARCH INSIGHT REPORT

The Future Location Report: The Next Big Shuffle

Determining the Right Footprint in a World of Uncertainty

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This report is part of SSON Research & Analytics' Research Insight Report series – detailed and insightful reports based on survey data that highlight not just the current market status, but offer candid insights from experienced practitioners, and actionable solutions.

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Why "Location" Matters

by **Tom Bangemann**, Head of Data Development & Research, **SSON Research & Analytics,**

Location is, as assumed, a significant component of the Shared Services and GBS model. And it is a component that is not only currently being reviewed, but under constant change.

Most companies are very active on this front. The internal and external environments they face on a daily basis drive this activity. The locations in which most SSO and GBS are currently based differ significantly in terms of their costs and their capabilities.

Given this, and the continued upheavals we can expect ahead, we expect to witness more changes on the location front in the near future.

About the Author

Tom is **Head of Data Development and Research** for **SSON Research & Analytics**, and previously worked at The Hackett Group for 19 years.

He is a senior analyst and advisor with profound experience in delivery, sales, business development and international consulting practice leadership. He is also a subject matter expert for GBS, benchmarking and KPI models.

Tom plays a leading role in curating data and developing actionable insights for the GBS and Shared Services sector through his role at SSON Research & Analytics. This was established seven years ago as a subscription-based division of SSON, and provides more than 120 critical benchmarking metrics across multiple process areas, for example: key talent, cost and resource remuneration data across nearly 4000 cities; market data and charts subscribers use to present a compelling business case to inhouse leadership; and tracks global SSO/GBS and Service Delivery data at city level across the world.

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Location as a Key Component of the SSO/GBS Model

Analyzing location footprints and changes driven by desire vs. pressure

When discussing research areas with my colleagues, we recognized that "location" was something often mentioned by clients as a topic of interest. This was clearly driven by the multiple crises they were facing and the uncertainty these produced. In an environment of increased risk, it is a natural reaction to want to check if everything is "watertight."

Many companies are reviewing their GBS models, or parts of it. Disaster recovery is important, as is securing talent, pushing the digital transformation forward, and maintaining (or developing) agility to drive resilience. But location is also an essential component of the GBS model. The concept of *centers* is based on a location, and a site.

When the combination of war, inflation, supply chain interruptions, food scarcity and the refugee crisis intensified and moved geographically *nearer*, many realized the world was becoming a colder place. No longer can we operate solely based on trust and just-in-time delivery. We need more planning, control, and above all, *mitigation* to produce that agility we have been striving for over the past years.

Today, agility is even more relevant than before. It guarantees the ability to react to these environmental changes with the resilience needed – in the sense of making sure the GBS organization survives, operates at stable levels, and supports the core business as intended.

To help determine the right approach, we decided to run a piece of research on "location." The idea is certainly not to scare anyone by proclaiming you should move away from locations near war zones! We are also not producing a list of *top country locations* (though that could be a follow-up). Some regional ratings do come across, and beyond being eye opening, are hopefully also helpful to your improvement efforts.

But we wanted to answer questions such as:

- How do GBS globally see the current situation – and does it produce an urge or need to discuss the location footprint?
- Are companies already acting on this?
- What are the drivers if actions are being taken?
- What location structures (e.g., number of centers, regions) are preferred?
- What are the main location selection criteria?
- Do companies expect to change their footprint, and in which direction?
- How does "location" correlate or compare with "automation" or other views and targets?
- Are there differences between GBS who want to increase vs. decrease their footprint?
- What can we expect, in general, in terms of the sourcing-shoring-location direction?

Recently, we did some research on outsourcing, process ownership, functional (HR) and process (OTC) topics. Across all this research we are seeing certain patterns, especially across market composition metrics and GBS views, in terms of future plans and approaches repeating themselves. Whenever relevant, we have added comments about this. We also added cross-analysis in terms of automation, maturity, size, or industry/sector as drivers for a specific outcome and provided commentary.

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SSO/GBS Composition

The sample group was large and the participant structure in this research very similar to previous research conducted. It is worth understanding the composition to interpret the results with that in mind:

- Most GBS are **multicountry and multi-function** (62%), 78% are multicountry, 82% are multi-function. Most are, therefore, advanced, modern GBS – not single function shared services organizations. This is a trend, and, it can be assumed, modern GBS is becoming the standard.
- Most GBS are medium **maturity** (59%). This is, of course, based on their own reflection/self-assessment, but we see similar results across other topics. It is worth noting that only 4% think they are "expert" in terms of maturity.
- 50% are medium **automation**, again based on self-assessment. Interestingly, we keep seeing the same phenomenon: that the "automation rating" is always a bit lower than the "maturity rating." Here, medium automation is 12% lower than medium maturity. So, 12% (as a calculated gap) perceive their maturity to be higher than their automation, which can be explained by maturity including automation but also scope, age, and other parts of the GBS model – potentially also location footprint (e.g., number of locations). Only 4% think they are "expert" in automation. After 30+ years of shared services/GBS and a decade of automation practice, this result does not inspire celebration.
- 86% state the highest **strategic target** for their GBS is cost/efficiency, followed by service excellence (68%) and effectiveness (67%). Agility is constantly increasing in these research measurements, now at 59%. Many understand the relevance of organizational agility. In addition, 55% mention value (which is less than the [above] 62% multicountry/multi-functional setups). There must therefore be a few (large) multi-functional/multicountry GBS that are not at all value focused. That is clearly a catch-up opportunity for them. Risk is only at 40%, so while risk clearly plays a role as an initiator of location discussions in the current environment, within the overall longer-term GBS approach it is not a top target.
- **Industry/sector** base for this research is very diverse. Only manufacturing and technology represent double-digit percentages.
- **Size** of participants, in terms of revenue, is also very distributed with a slight trend towards larger companies, however SMEs (up to $2bn revenue) make up 30% of the peer group.

The cross-analyses reveal similar results as in recent research, e.g.:

- **Larger** companies (by revenue size) are more often **multicountry/multi-function** set-ups: 41% of small (SME) are multicountry/multi-function, 75% of large (over $10bn) are multicountry/multi-functional.
- High **automation** levels (self-assessed) correlate with **multicountry/multi-function** set-ups to some extent:
    - all "expert automation" selections are multicountry/multi-function.
    - However, 50% of low automation are also multicountry/multi-function, so a high number of "broader" set-ups (mostly considered mature) are still low automation. This is likely explained by a focus on labor arbitrage, instead of automation.
- There is a very strong correlation between **maturity** and **automation**. These groups have mostly similar or identical views/answers.
- **Automation** correlates with the **strategic targets** list: better automation (high, expert) companies mention **value** and **agility** more often (both 100%), and **cost** is less often a target (relative to other automation levels).
- In the high **maturity** GBS group, 66% named **value** as a target, whereas only 11% of the low maturity GBS did.
- Large companies believe they are better in **automation**: 67% of "expert automation" companies are over $10bn in **size.**

The Relationship between Risk, Footprint and Growth

Managing Growth

The GBS model assumes permanent growth until all feasible scope is covered and efficiency measures reverse the direction to a reducing FTE number. The general approach to managing growth (for 32% of respondents) lies in automation – utilizing technology to manage larger volumes. When automation levels are high, and hence agility is high, this approach can work very well. A majority of 68% include location in this equation. Growth is managed by increasing existing location size (39%) or moving work into new locations (28%), the majority being greenfield-oriented. Considering many might have thought that physical work transfers, location movements and location selection projects were largely a thing of the past, this data proves them wrong. The next location shuffle has already begun!

Drivers

The drivers for the above approaches are mainly cost based. Other, often-mentioned, drivers are people/talent, and technology/automation. Very few companies mention resilience or agility explicitly. Answers depend on the current company situation, but activity levels have picked up. There is a high variability in the responses. This means that looking for "similar companies" is difficult: most would have a different view, no matter which.

Risk

The main concern GBS have in today's environment in terms of risk is talent/workforce (42%). **Talent and cost together make up 73% of answers**. As with the drivers, these two are the main topics. Political unrest is only mentioned by 8%, surprisingly low but pleasingly so. Worries about not being able to make the digital transformation effort work out are significant, at 14% (this was one of the key drivers in the outsourcing study, driving companies to consider another sourcing mix).

Large companies (over $10bn revenue size) are more worried about talent (55%) than cost (13%). For SMEs (up to $2bn revenue in size) it is the opposite. They rank cost at 45% and talent at 36%.

Risk relating to Footprint

Risk is linked to the existing footprint; however, companies are divided on this topic. **For half of the companies (51%) the current footprint is exposing them to risk**. The other half thinks they are well balanced or well-hedged. This, in total, should indicate that the "exposed" half will take action to change their location footprint.

Where to Go, and Why?

Regional Approach

Of those who are planning to expand into new locations, **45% plan to stay in the same region, and 44% plan to locate into a new region**. Almost all are planning to add new locations instead of just *shifting an existing location to another region* (which applies to only 11%).

Size wise, medium size companies ($2-$10bn in revenue) prefer new locations to be *in the same region*, i.e., nearshore (78%). Both small and large companies prefer other regions and new locations.

Regional Comparison

A very interesting part of this research is the evaluation of nine regions across six categories:

- Cost effectiveness
- Workforce availability
- Specific skills availability
- Customer centricity
- Productivity/efficiency
- Agility/innovation

Analyzing the best ratings by category:

- India ranks number 1 in four categories:
  - Cost effectiveness
  - Workforce availability
  - Specific skills availability
  - Productivity/efficiency

The weak point in India is customer centricity, in 7th place.

- Western Europe & the UK ranks number 1 in two categories:
  - Customer centricity
  - Agility/Innovation

The weak point of Western Europe & UK is cost, in 8th place.

In a holistic analysis of all results, it becomes clear that a total ranking (with equal weighting) would be:

1. India
2. Central and Eastern Europe
3. Asia
4. Western Europe & UK
5. China
6. North America
7. Australia and New Zealand
8. Latin America
9. Middle East & Africa

[See also page 21]

While the Middle East & Africa rank last, they are competitive in pricing (cost), at least across some countries in the region. This could help them improve their positioning. The lowest individual rank in the whole overview is Latin America´s ability to provide *specific digital skills*. Considering the digitization trends and the increasing importance of finding digital skills, this rating could be considered a huge draw-back.

Another area requiring significant improvement is ANZ´s last place in the cost category. Since that probably will not change, ANZ could alternatively focus on and improve ratings in other categories. At present, ANZ does not seem attractive enough for the outside world to locate there. Naturally, there are differences within regions, so individual countries could score higher or lower than the generic regional approach suggests.

Sourcing & Shoring

To complete the picture, we analyzed existing and planned shoring and sourcing preferences. The current primary sourcing/shoring combination, **for 56%, is captive-based. Separately, 38% prefer hybrid**, and only 5% are mainly outsourced. In shoring, offshore (53%) beats nearshore by a small margin.

The **target sourcing/shoring combination is moving from captive** (56% down to 32%) **towards hybrid** (38% up to 59%). We also see outsourcing increasing from 6% to 8%.

The above results are fully in line with SSON Research & Analytics' recent outsourcing research.

Scope

Looking at the scope of processes, the list is very similar to other research carried out by SSON R&A this year. The highest mentions are Procure-to-Pay (PTP), Order-to-Cash (OTC), Record-to-Report (RTR), and Data Management. The processes that top the list are again similar, whereby coverage increased a bit from the *State of the Industry* research carried out earlier this year.

IT (including all processes) adds up to 54% coverage, relatively high. This is still lower than the 62% of companies who say they run a multicountry/multi-function set-up. That means (mathematically) there are 8% of GBS who run "broader" set-ups but exclude all IT from this, most likely because they run a separate IT shared service organization or have outsourced it.

Including IT processes, **only 5 processes are in scope for the majority of companies**, so there is significant scope extension opportunity. Basically, we are **"less than halfway done."**

This list is similar for all industries/sectors with the exception of Government, where only 25% cover PTP and OTC.

Number of Locations in GBS, Reasons, and Plans to Change

Number of Centers

Looking at the number of locations that existing GBS operate in, the results exhibit a **broad range** from one center (14%) to over 10 centers (13%). The most popular size is three centers, at 21%.

When analyzing only captive centers, the picture is similar: 18% have one captive center, 13% have 10+ captive centers.

The actual locations listed produce a very diverse list of countries all over the globe. Most of them are in line with popular sites in Asia, India, China, and CEE. Western Europe and USA are also mentioned, along with some "more exotic" locations like Croatia and Pakistan.

As for a cross-analysis:

This reveals that there is also an interesting **correlation between automation levels and number of locations**: all "expert" automation companies have *10 or more locations*, whereas 96% of "low" automation companies have one to six locations. Clearly, some have taken the approach to automate, and not worried about consolidation; others have consolidated and likely taken the wage arbitrage path, and not automated (much, yet). The rest sits in between, with a combination of consolidation and automation efforts.

The correlation we see between automation levels and number of locations is very similar to that between **maturity level and location number**: "low" maturity companies have fewer locations – 100% have one to six. For "high" maturity companies, 28% have 10+ locations. In the "expert" maturity group, 33% have 10+ locations. Obviously, companies with "better/higher" maturity levels focus more on automation and less on consolidation (similar to automation level analysis).

This might seem counterintuitive. You might expect companies with high maturity to end up having high automation and fewer locations – and this probably will be the expected outcome at the end of the journey, but for now we are somewhere in the middle. The results we see are based on "the order of things to do." Some companies first automated before consolidating; others first consolidated to fewer locations, later introduced process automation.

Location Selection Reasons

The existing locations were selected mainly based on **cost** reasons (79%). **Access to skills/languages** is number two, with 61%, and effectiveness at 49%. Customer centricity is only at 34%. In addition, 30% followed a brownfield approach within the selection process.

A future criteria list for location selection would be very similar to that the past, with cost in first place (83%) and access to skills/languages still in second place (64%). **Risk, agility, value, and customer centricity all increase in relevance for future location selections** – for example, customer centricity from 34%in the past to 44% in future.

The only significant difference to the above is that, for Government, only 25% list cost and value as reasons for the future selection.

These preference changes (between past and future) can mean a change in competitive position for these regions (see above). E.g., customer centricity increasing in *relevance* means locations ranking *lower* on this capability (Latin America, China, India) need to improve to maintain their positioning. Indeed, ANZ could see this being their niche, having scored second on customer centricity.

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The Way Forward

In general, **62%** of all companies agree that global wage inflation and tightening labor markets are **driving change in** (or at least a review of) **their geographical footprint**. This would mean a significant assessment/re-assessment activity being undertaken currently by the SSO/GBS market.

As for a cross-analysis:

By **automation** level, this splits into 100% of "expert" automation SSO/GBS reviewing their footprint, but only 56% of the "low" automation SSO/GBS.

Similarly, 55% of "low" **maturity** SSO/GBS are reviewing their footprint, compared to 67% of "expert" maturity SSO/GBS.

Size wise, 67% of SMEs say they are reviewing their footprint, but only 59% of large companies and only 25% of Government are doing the same.

The fact that "most" are reviewing their footprint does not necessarily mean they will all conclude that the location structure needs change. In fact, **75% believe their existing location structure (footprint) is the right one** (considering all current internal and external drivers). Overall, 25% will most likely change something in the location structure, the rest will "compensate" in other ways, e.g., through automation efforts, or potentially outsourcing (as per our outsourcing study).

As for a cross-analysis:

The existing structure is ok for 78% of "low" **automation** SSO/GBS, but only 67% of "expert" automation ones.

For **maturity,** the numbers are identical to automation level analysis: 78% of "low" maturity SSO/GBS agree that the existing structure is ok, while only 67% of "experts" agree.

Size wise, an even bigger portion, 89%, of "large" companies think their footprint will be ok, and 71% of SMEs believe no change is needed.

Overall, **56% of companies have some sort of desire, discussion, or project ongoing** to assess/reassess the current location structure (anything from number of locations to selection of locations to facility changes). Again, the majority of companies are "working on location footprint" in some ways. Out of these, 51% are looking at location changes and additions; 44% are ok with their existing locations.

Size wise, 62% of small companies are considering other locations, but only 48% of large companies are.

Factors Driving Location Activity

Looking at the **list of factors** that impacted companies in terms of desire, discussion, or project to assess/re-assess the current location structure/footprint, we find the following:

- The number one single leading factor is inflation/cost at 40%
- Pandemic is mentioned by 31%
- Technology advances also rank at 31%
- BPO capabilities (improvements) at 28% (in our outsourcing research, technology was the main driver for increased interest in outsourcing)
- War/instability together are "only at 30%"
- **Internal factors are surprisingly high, at 77% altogether**

Those companies that have an **actual project** ongoing state that ***the main factor*** initiating the assessment was **cost** (however only 21% state this as a *main factor*). **Internal factors** (strategy, scope, enlargements etc.) together account for 38%, which is very high. **Covid** as *single main reason* is mentioned by only 8%.

As for a cross-analysis:

This reveals very little specific correlations or differences, but one notable one is that only 4% of "low" **automation** SSO/GBS mention ESG (Environmental, Social and Governance) as a factor, while 50% of "expert" automation SSO/GBS do. However, nobody mentioned ESG as the *main reason*. Another notable difference is that 100% of "expert" automation SSO/GBS mention external reasons (supply chain crisis, political instability) and 0% mention internal reasons as *some of the factors*.

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Future Footprint

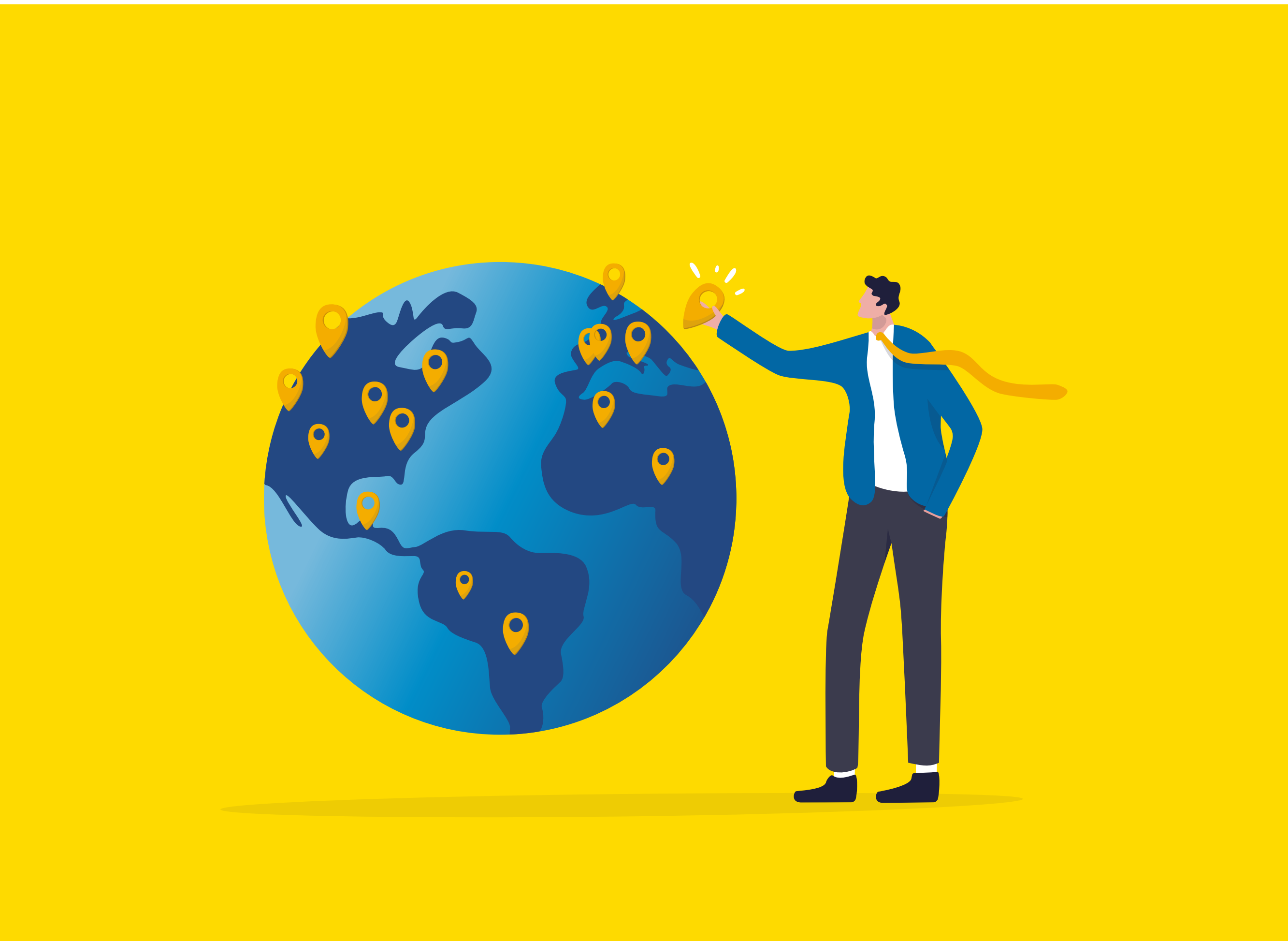
The estimate for the future is that 34% of companies expect to have more locations than today! By comparison, 23% expect to have a similar number and 29% expect a reduction in number of locations. Overall, a fairly equal distribution, with a small minority expecting growth in numbers.

As for a cross-analysis:

This reveals that "higher" **automation** SSO/GBS anticipate having fewer locations in future but remember that they are coming from a very high starting point with 10+ locations. "Lower" automation SSO/GBS logically expect more locations as they start from a lower base.

Similarly, 56% of the "low" **maturity** SSO/GBS expect to have more locations in future, compared to only 33% of the "expert" maturity.

Size wise, "small" companies expect more locations in future (62%). Only 22% of "large" companies expect more locations compared to 44% of them expecting fewer locations.



Conclusion

Location is a significant component of the SSO/GBS model, and it is an important topic in current leadership discussions. **Most companies will evaluate or check their footprint, and many are already convinced they need a location update**.

The (simplified, overall) **trend seems to be towards a multicountry/multi-functional setup with increasing location numbers, preferably in offshore locations utilizing a hybrid sourcing mix**. However, companies are different and the variations in approaches are significant. Also, the chosen direction depends heavily on the current (starting) position. Companies with many locations strive towards a smaller (reduced) number, whereas companies with few locations plan to add to their footprint. **There will likely be an accumulation of results in the range of 3-6 centers per company in global SSO/GBS**. In fact, 55% of companies are already in this range today. In case of servicing countries which require an in-country-center (for political, regulatory, other reasons) the number would need grow.

Location selection processes will be driven mainly by internal factors, along with cost and talent related criteria. The talent criteria may appear in the form of labor market shortages – sometimes existing centers have huge difficulties finding additional people in existing locations. In these cases, automation and productivity increases can be one way out; another is tapping into additional labor markets.

From a **risk** standpoint, it is wiser to spread and **utilize different labor markets than to "put all eggs in one basket," however large and safe that basket seems**. Since SSO/GBS work is very scalable thanks to technology, the arguments against additional locations due to additional management costs are of less relevance today than they were years back. We know that business cases typically already produce positive results with 200-300 FTE center sizes; over 1,500-3,000 FTEs, the complexity can cost more than the scale effects produce as benefits.

While a longer list of different **criteria** is becoming popular in location selection processes, the above-mentioned list is still very similar to what has been used over the past decades. Value, agility, resilience, ESG and other topics are on the list, but don´t yet carry a lot of weight.

Finally, there are so many feasible locations available on the planet, that the selection process can be challenging. Even after 30 years of shared services and GBS we are still seeing new entrants into the location competition market. Some of them (e.g., in Africa) offer extremely low-cost levels. Others have specific skill sets within their populations that have been developing over years due to specific traits and behaviors. While they are still unknown to most of us, they may prove to be the perfect location for an individual company.

SSON Global Advisory Board Insights

PRACTITIONER VIEWPOINT

A Clear Location Strategy: Right Work, Right Place, Right Cost

Dr Sumit Mitra, CEO Tesco Global Business Service, Tesco

ON TALENT AS #1 RISK FACTOR:

The survey indicates that GBS' primary risk concern is talent/workforce [42%]. What is your primary risk concern in the year ahead and how will you mitigate against this?

Typically, in the GBS space, the colleagues we have hired in the past two years have been primarily working from home. These colleagues haven't really integrated with their teams, nor have they really experienced the true culture of the organization. I see a huge risk regarding attrition as we continue to try and move towards a hybrid way of working.

We had to bite the bullet and made it two days of mandatory working in office. However, we ensured that we change the narrative on office work: shifting from sitting in front of laptops to more collaboration, face-to-face interaction … for example, more one-to-ones, team meetings and driving continuous improvement.

ON EXPANSION PLANS:

The survey indicates 45% of those planning to expand into new locations will stay in the same region. If you are planning to expand, where will you expand, and why?

We have a clear location strategy. We ensure we have the right work, in the right place, at the right cost, based on the three core principles of data privacy, proximity to customers and language capability.

We have a center in Dundee to support our UK customers; a center in Budapest to support Eastern European markets; and India, which acts as the center of scale across all markets.

We have just opened a new center in Waterford in Ireland to support the Irish business. We have no other plans on location in the near future.

ON GROWTH:

The survey states: GBS are managing growth by increasing existing location size [39%] or moving work into new locations [28%]. How are you managing growth in the year ahead?

Our focus is on skill count rather than headcount. We are taking on a huge number of new roles into Tesco Business Services (TBS), but we are creating headroom by driving efficiency within the existing operations through Continuous Improvement and digital transformation.

Over the last three years, TBS has reduced its cost by 5% net, after taking on three years of inflation and taking on 600 new roles.

ON ECONOMIC IMPACT:

The survey says 62% of respondents agree global wage inflation and tightening labor markets are driving change in (or at least a review of) their geographical footprint. Are you currently re-assessing your geographical footprint? What is driving this and how might you take action/shift resources/mitigate against this?

We are happy with our locations as we continue to drive efficiency and take on more value-added work. TBS is measured on the value we create (revenue, margin, cash improvement) and how we take on more work into existing operations rather than growing headcount.

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PRACTITIONER VIEWPOINT

Despite Demand for Remote Working, We Have to Be Practical

Steve Rudderham, Head of GBS, AkzoNobel

ON TALENT AS #1 RISK FACTOR:

The survey indicates that GBS' primary risk concern is talent/ workforce [42%]. What is your primary risk concern in the year ahead and how will you mitigate against this?

It feels like the barriers to exit are a lot lower than we've ever seen and I think we will start to see people move roles as they demand more from their employers. I still don't believe that Talent and Development is given a big enough push / support throughout all levels of the organization – this is what we need to get right as GBS organizations in order to retain talent.

Do you think your current footprint exposes you to risk?

Eastern Europe poses the biggest risk, but I think we are all feeling this and if anyone tells you otherwise then check for 3 heads and webbed feet. The demand for remote working remains there, but we have to be practical.

ON EXPANSION PLANS:

The survey indicates 45% of those planning to expand into new locations will stay in the same region. If you are planning to expand, where will you expand, and why?

Any expansion will now follow any language requirements for the mother company – and at the moment this is most likely in Africa.

ON LOCATION SELECTION:

The survey indicates location selection is based primarily on cost and access to skills/languages. How important are OTHER factors like the ability to manage risk, agility, value, and customer centricity in selecting a location in future?

The skills and languages then roll into availability and then retention – can the business model be sustainable?

Generally, we find China and South America to be the most agile followed by India – but the maturity of the centers also counts for some of this.

ON GROWTH:

The survey states: GBS are managing growth by increasing existing location size [39%] or moving work into new locations [28%]. How are you managing growth in the year ahead?

We will look to grow the core centers of India and South America and then build on the competencies in Poland with a focus on the value-added roles.

ON ECONOMIC IMPACT:

The survey says 62% of respondents agree global wage inflation and tightening labor markets are driving change in (or at least a review of) their geographical footprint. Are you currently re-assessing your geographical footprint? What is driving this and how might you take action/shift resources/mitigate against this?

Yes, we are assessing objectively as to what else can be done in India and particularly China. China is more for the "can do" attitude to everything they are presented with, in terms of process.

SSON Global Advisory Board Insights

PRACTITIONER VIEWPOINT

Getting the Basics Right in 2023

David Hughes, Shared Services Director, Bidvest Noonan

ON TALENT AS #1 RISK FACTOR:

The survey indicates that GBS' primary risk concern is talent/workforce [42%]. What is your primary risk concern in the year ahead? How will you mitigate against this?

For us, sourcing new talent and growing and developing our current talent is absolutely key to our innovation strategy for shared services. We are seeing an unmatched competition for shared services talent in the market. We see a huge number of individuals seeking employment and a huge number of employment opportunities.

There is a huge demand for skilled SME (subject matter expert) talent in key areas of shared services (for example, business analytics, automation) and limited talent with these skills.

We are also seeing more employees favoring home-based working in order to reduce their commuting costs and also be more productive. This presents us with the very real challenge of driving transformation via cross-functional project teams who are not in the office.

Do you think your current footprint exposes you to risk? How are you mitigating against this?

Yes and No. One the one hand, in a low margin industry in the UK we are always exposed to the risk of talent leaving for higher paid roles with other organizations. However, our people tell us they are looking for personal growth and development – and in our business, in the back office, we have many challenges to overcome, where people can learn new skills and make a real impact. This is what we are focused on to drive engagement from our people.

ON GROWTH:

The survey states: GBS are managing growth by increasing existing location size [39%] or moving work into new locations [28%]. How are you managing growth in the year ahead?

Our primary focus for the next 12 months is to minimize overhead cost while maintaining quality. Whilst we see opportunities for back-office growth, our role is to support the wider business as it transforms and changes shape in response to wider macro-economic factors. This is an acknowledgement of the bandwidth our business currently has, to manage change right now – there are so many economic impacts on our customer and supplier base, that we are focused on getting the basics right and weathering the storm during 2023.

SSON Global Advisory Board Insights

PRACTITIONER VIEWPOINT

Location Choice Based on 35-point Evaluation Matrix

Suzanne Leopoldi-Nichols, Chief Global Business Solutions Officer, WPP

ON EXPANSION PLANS:

The survey indicates 44% of those planning to expand will push into new regions/locations. If you are planning to expand, where will you expand, and why?

Our expansion plans include moving into a new Region (South America). This is driven primarily because of the location of work we are taking over. We are moving work from Brazil into a new Brazil Shared Services Center, and we have work from other South American countries and Mexico that we are considering moving into Columbia.

Further, our additional expansion plans are as follows: A second location will be established in India. The rationale is threefold:

1. Growth
2. Risk Mitigation. We have nearly 800 employees in Mumbai, and we think it would be best not to put all of our eggs into one basket.
3. We believe we can do a bit better from a cost perspective in a tier 2 or tier 3 city.

We also plan to open a center in Eastern Europe – either Poland, Romania, or Bulgaria. The rationale is growth and some language capabilities.

We are also looking at Colombia for expansion.

ON LOCATION SELECTION:

The survey indicates location selection is based primarily on cost and access to skills/languages. How important are OTHER factors like the ability to manage risk, agility, value, and customer centricity in selecting a location in future?

Certainly, other factors, especially risk, are extremely important. We utilize a 35-point evaluation matrix that includes items like Risk, Rule of Law, Corruption Index, etc. to evaluate locations. Customer Centricity and Agility is driven more by individuals than by a location, so it is not factored into our decision directly; however, access to talent is very much considered.

SSON Global Advisory Board Insights

PRACTITIONER VIEWPOINT

Multiple Locations Offer Diverse Talent

Manoj Kalra, SVP & Head of GBS, DSM

ON TALENT AS #1 RISK FACTOR:

The survey indicates that GBS' primary risk concern is talent/workforce [42%]. What is your primary risk concern in the year ahead? How will you mitigate against this?

The primary risk is around the ability to upskill talent and manage the perception of shared services versus a value delivery center. This will be mitigated by internal marketing & highlighting all the POCs that have been successful.

Do you think your current footprint exposes you to risk?

No, on the contrary. Having multiple locations has helped in following the sun and having access to different talent markets.

ON LOCATION SELECTION:

The survey indicates location selection is based primarily on cost and access to skills/languages. How important are other factors like the ability to manage risk, agility, value, and customer centricity in selecting a location in future?

These factors play a vital role as these traits are important if you want to scale up from a shared service to a value delivery organization.

ON GROWTH:

The survey states: GBS are managing growth by increasing existing location size [39%] or moving work into new locations [28%]. How are you managing growth in the year ahead?

We're in a unique situation as we are merging with Firmenich. More to come post-merger.

ON LOCATION DRIVERS:

The survey indicates that cost still determines location decisions. Other factors include people/talent and technology/automation. Which drivers do you consider most important in assessing/reassessing your current location strategy?

Cost, ability to scale, labor laws, and the university ecosystem are all important to us.

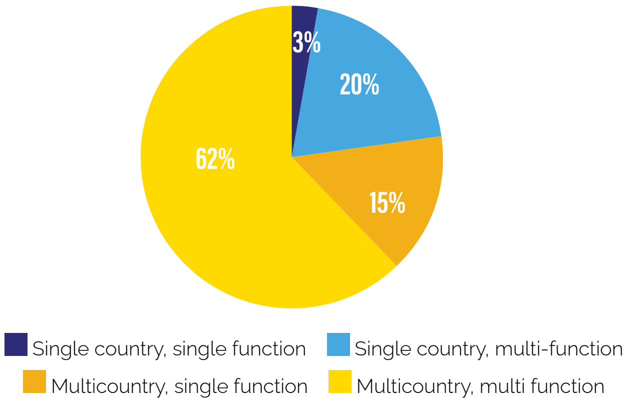
ON ECONOMIC IMPACT:

The survey says 62% of all companies agree global wage inflation and tightening labor markets are driving change in (or at least a review of) their geographical footprint. Are you currently re-assessing your geographical footprint?

Yes, we have to question ourselves on the number of roles in high-cost locations & why.

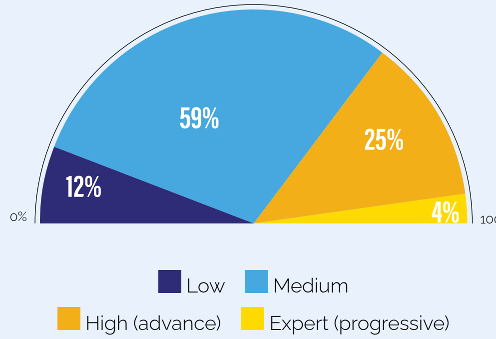
Data Insights: Key Survey Results and Trend Highlights

What type of GBS/SSO are you?



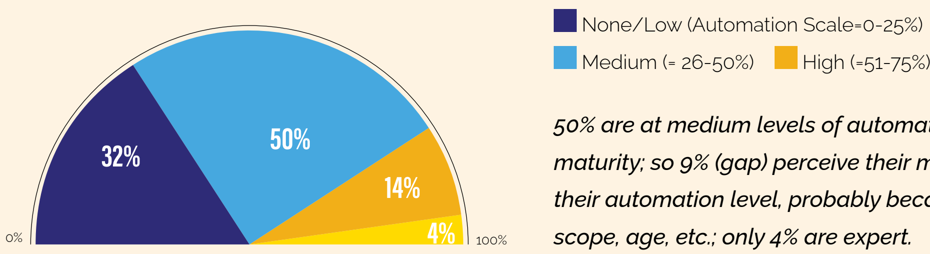
Most are multicountry, multi-function (62%); 77% multicountry, 82% multi-function. Modern GBS is becoming the standard.

What do you perceive your overall maturity level to be?



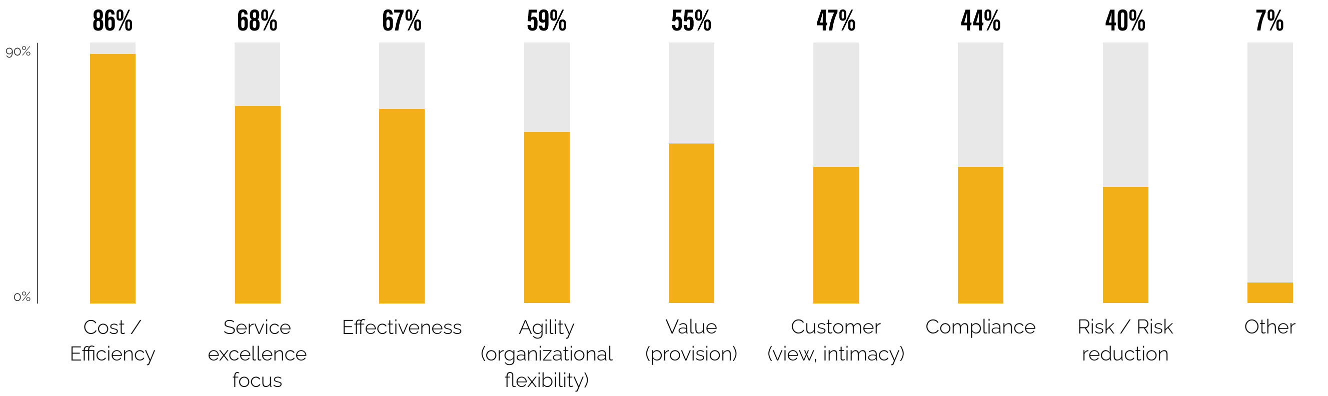
Most are medium maturity (59%); only 4% are expert.

What do you perceive your overall GBS/SSO automation level to be?



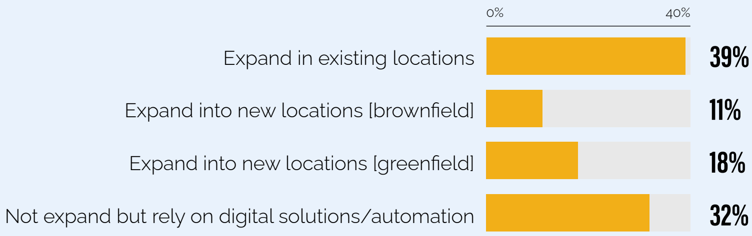
50% are at medium levels of automation, lower than in maturity; so 9% (gap) perceive their maturity to be higher than their automation level, probably because maturity includes scope, age, etc.; only 4% are expert.

What are your GBS/SSO strategic targets in general?



55% select value, less than the proportion of 62% that are multicountry/multi-function, so some large GBS are not value focused. Cost is #1, at 86%; effectiveness is #3, at 67%; service has become #2, at 68%; agility is rising (now 59%).

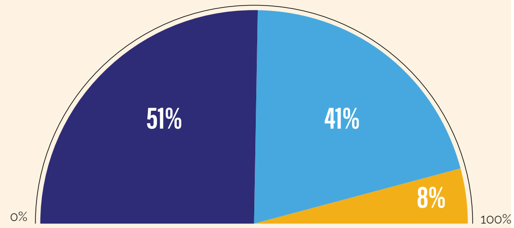
How are you managing/planning to manage an increase in scope of work?



Nearly 30% are expanding into new locations.

What are the drivers for this strategy?

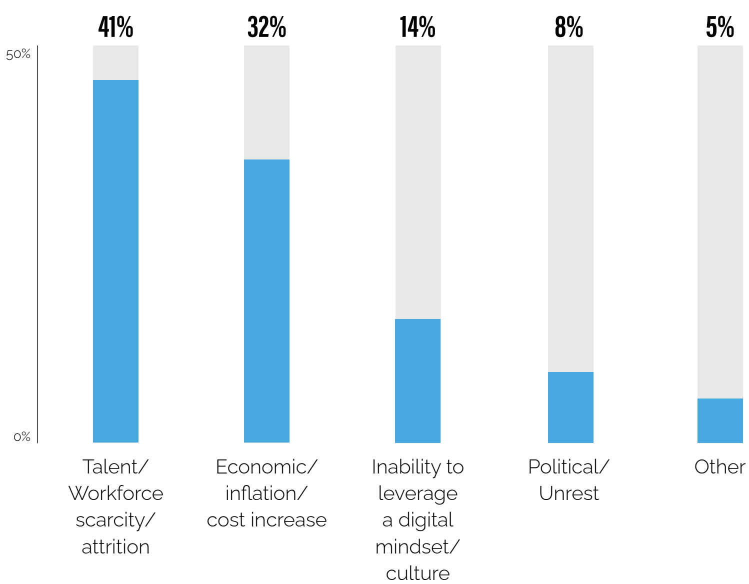
To what extent is your current location footprint exposing you to risk or mitigating against it?



- I believe our current location footprint exposes us to this risk
- I believe our current location footprint means we are well-balanced in terms of this risk
- I believe our current location footprint means we are well-hedged or protected against this risk

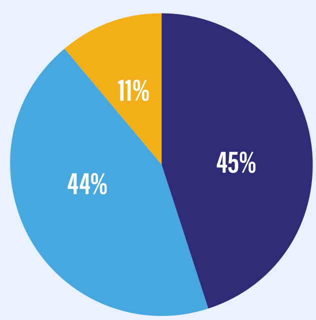
Risk is linked to the existing footprint for half the companies (51%); the other half thinks they are well prepared. That means that half may need to change their location/footprint.

What is your main concern about risk today?



The #1 concern is talent/workforce (41%). Together with cost, these make up 73% of risk concerns, and are the main topics. Political unrest is only at 8%, surprisingly low. Worries about not being able to make digital transformation work are significant (14%).

If you are planning to expand into new locations, would these be predominantly:

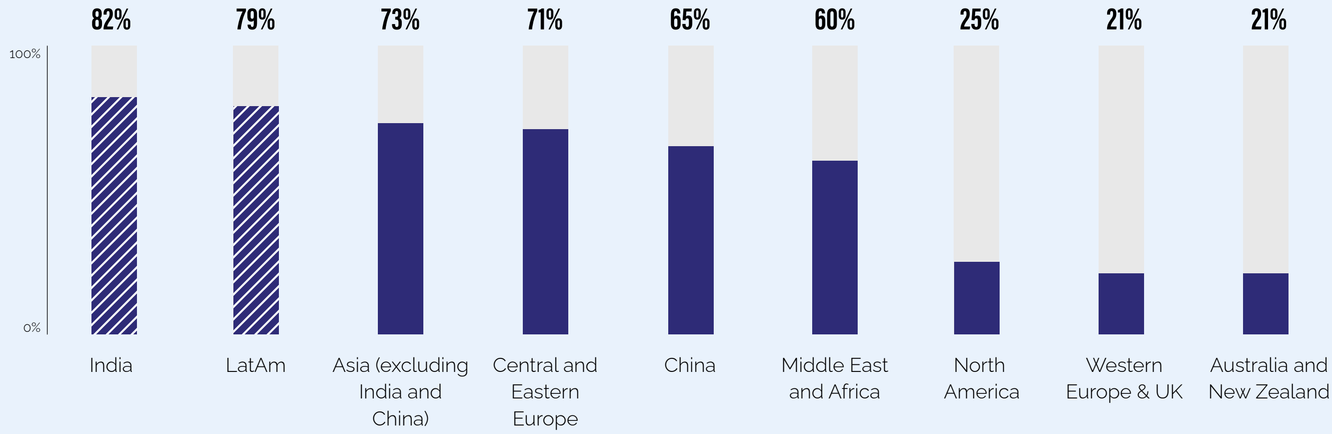


- In the same region
- Adding locations in a new region
- Shifting locations from one region into another

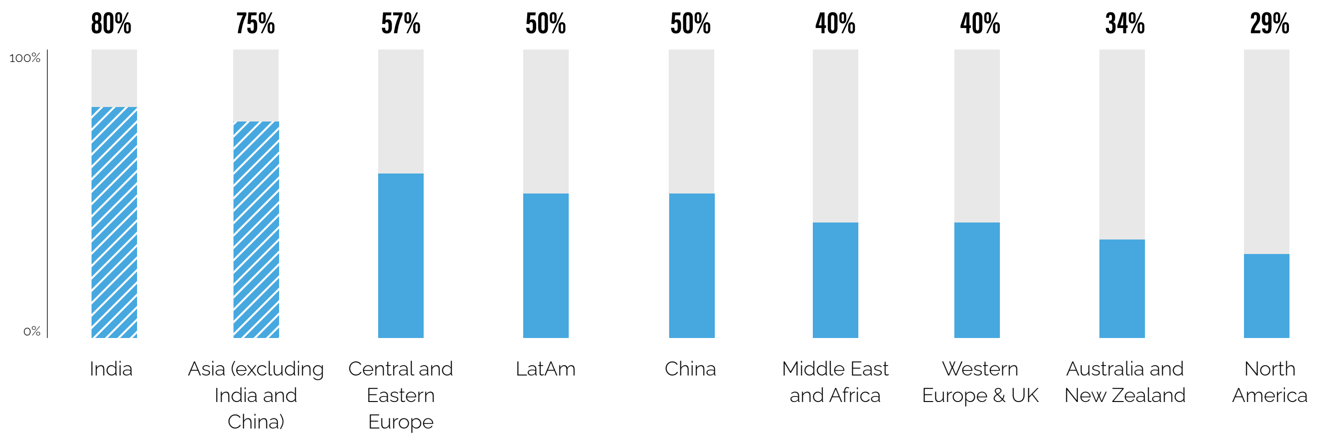
Where to go is the big question – and while 44% are opting for the same region, another 45% is leaning towards a new region. Most plan to open new locations instead of just shifting (11%).

What is the perceived value individual regions offer?

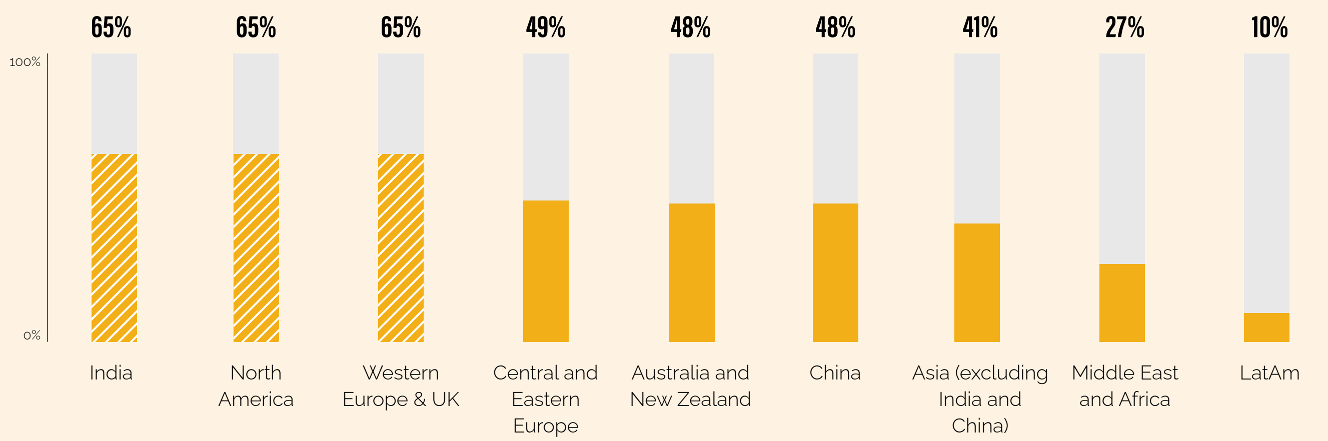
Cost effectiveness

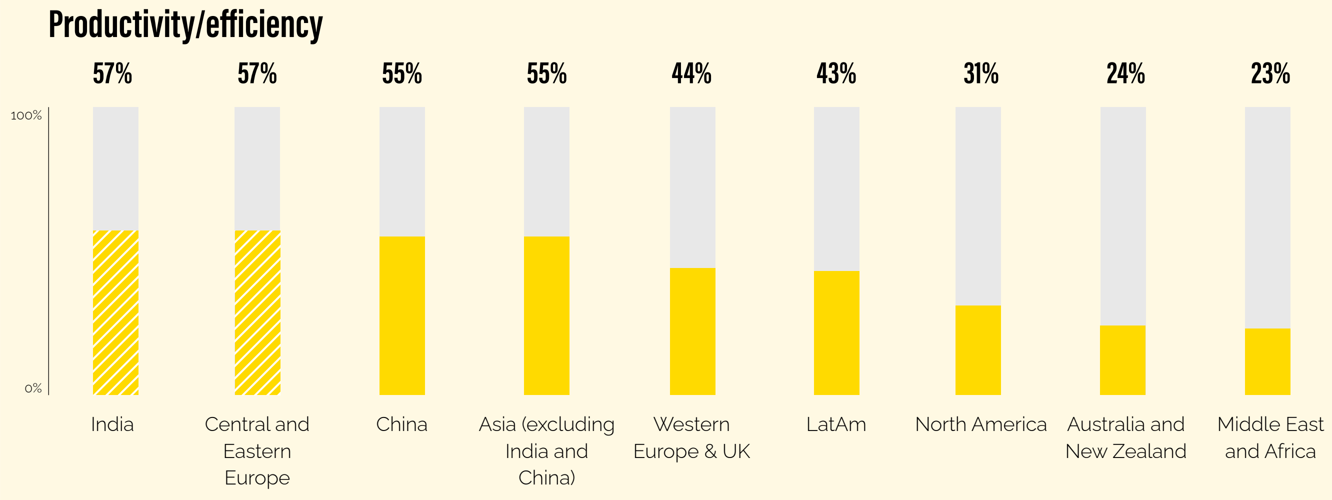


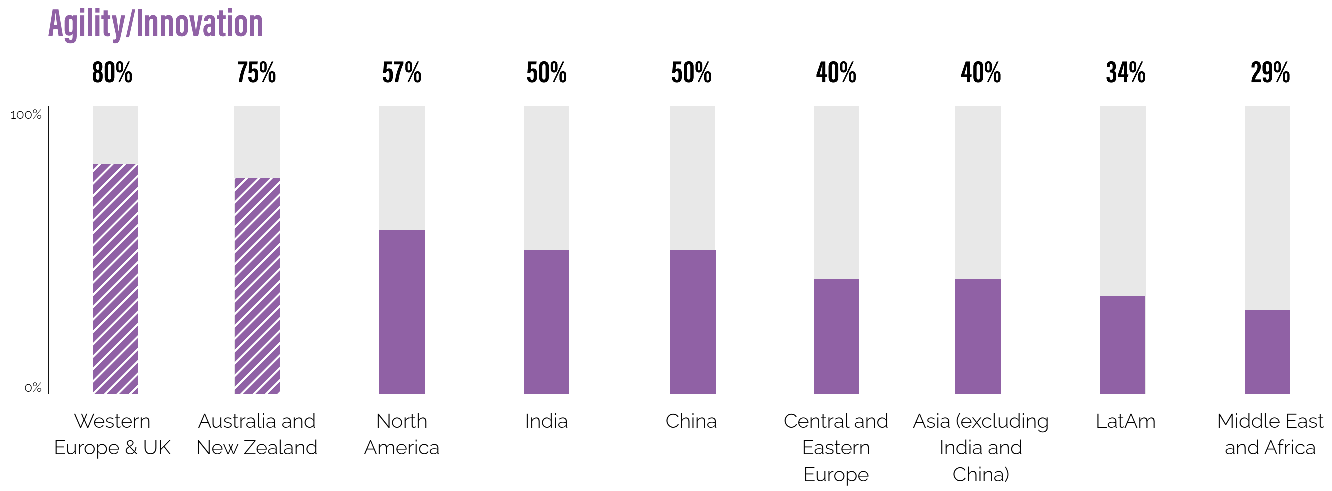
Workforce availability

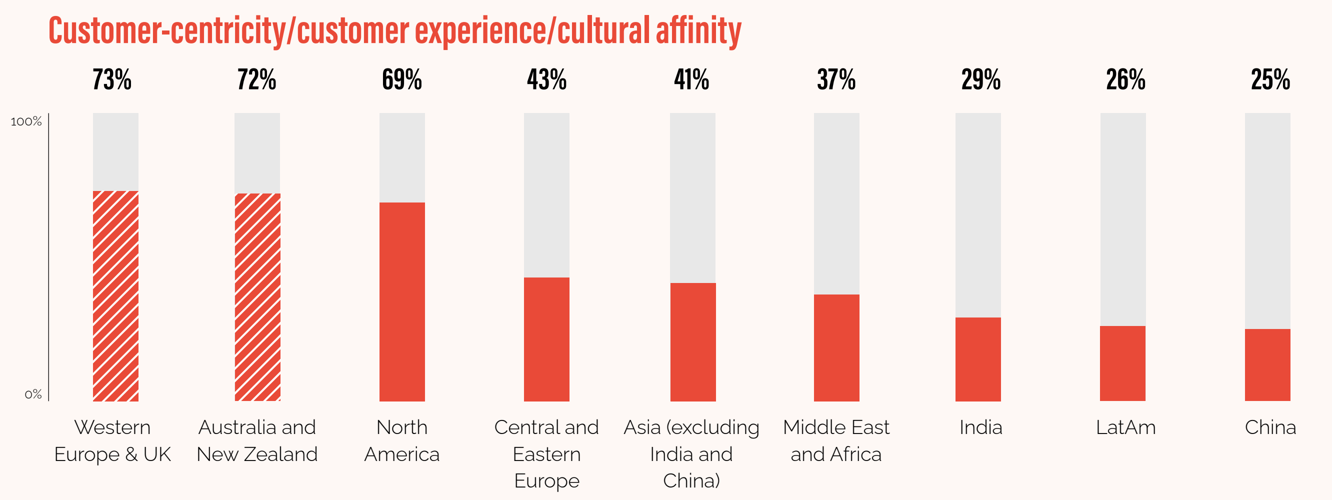


Specific digital skills availability (automation, data, technology)



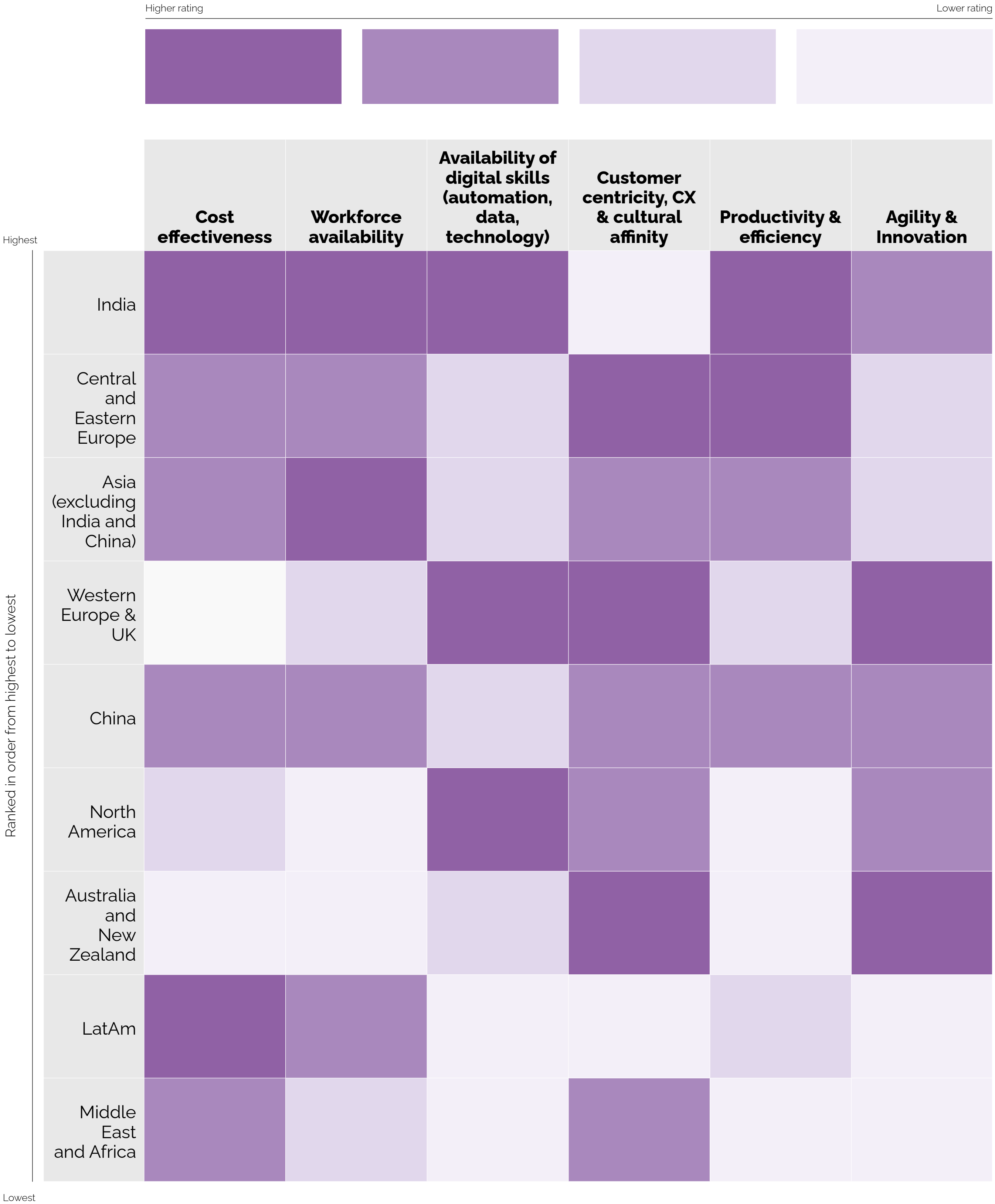




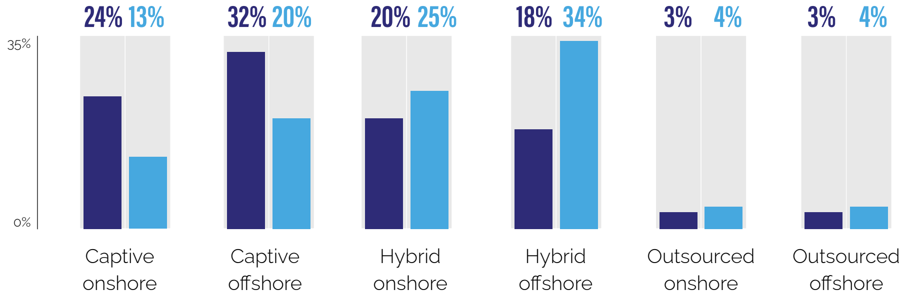


India is in first place twice, in second place twice, and only lagging (seventh place) in customer centricity – which is the issue to resolve!

All countries at a glance: Based on certain criteria, which location are you planning to expand into?

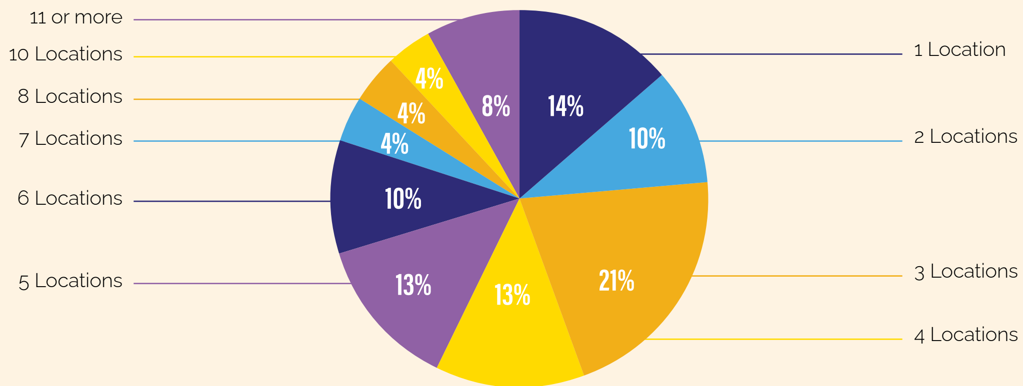


■ What is your CURRENT primary sourcing/shoring combination?
■ What is your target combination in 2-3 years?



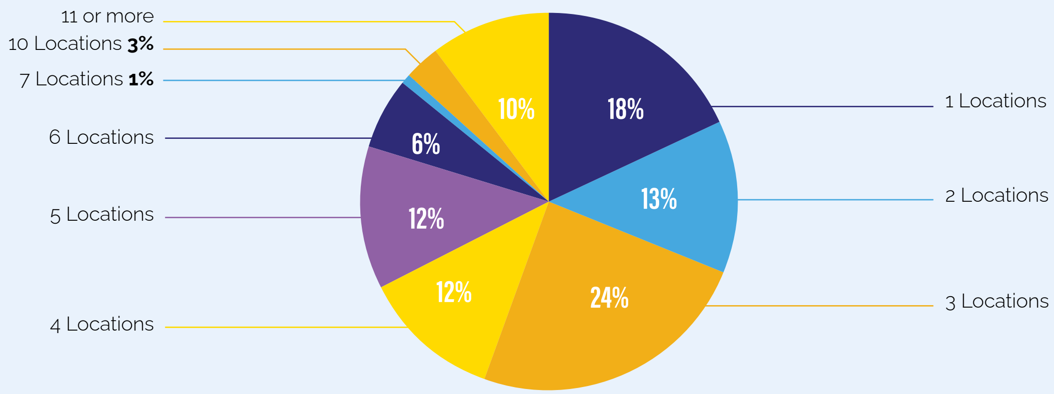
The most common current model is captive offshore (24%). Overall, 56% are captive, 38% hybrid, and 6% outsourced (see the [outsourcing study]() for more details). The target model is hybrid offshore, which gets the highest mention with 34%. Captive decreases from 56% to 33%, and hybrid increases from 38% to 59%. Outsourcing increases from 6% to 8%.

How many locations does your SSO/GBS/BPO have in total (including all captive and outsourced locations)?



Diverse results, with some having one center, and some more than 11.
The most common is three (21%).

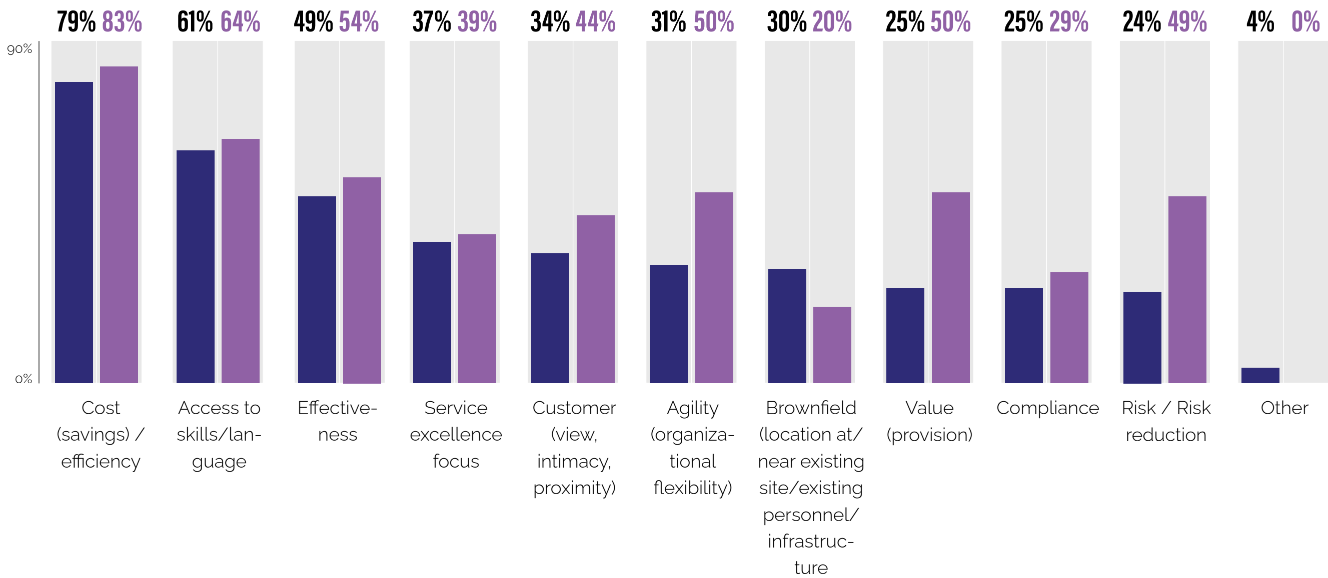
How many CAPTIVE locations does your SSO/GBS include in total?



The number of captives is also diverse; again, three is most common, but 18% have only one captive and 10% have over 11. In terms of where these are based, the locations mentioned are mostly typical locations in Asia, India, China, and CEE ... as well as some less popular locations (Colombia, Croatia, Pakistan), and some West European/UK and USA.

What were the main reasons (in the past) for selecting the locations you are currently in?

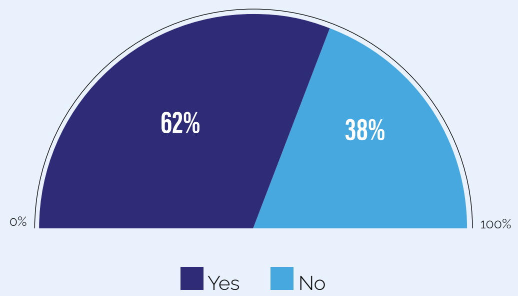
What ARE/WOULD BE the main reasons (now and in future) for selecting a location?



The locations were selected mainly based on cost (79%). Access to skills/languages is #2 at 61%, and effectiveness at 49%. Customer centricity is only at 34%. Overall, 30% still followed the brownfield logic.

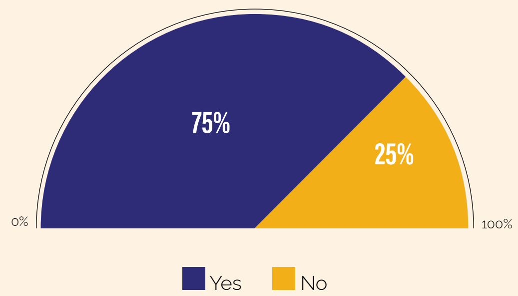
We see similar reasons when we consider future location selection, with cost still leading (83%) and risk, agility, value, and customer concerns increasing significantly in relevance (customer from 34% to 44%). The increased weight given to customer centricity means locations ranking lower on this capability (LatAm, China, India) need to improve.

Are global wage inflation and tightening labor markets driving a change in (or review of) your geographical footprint (site locations)?



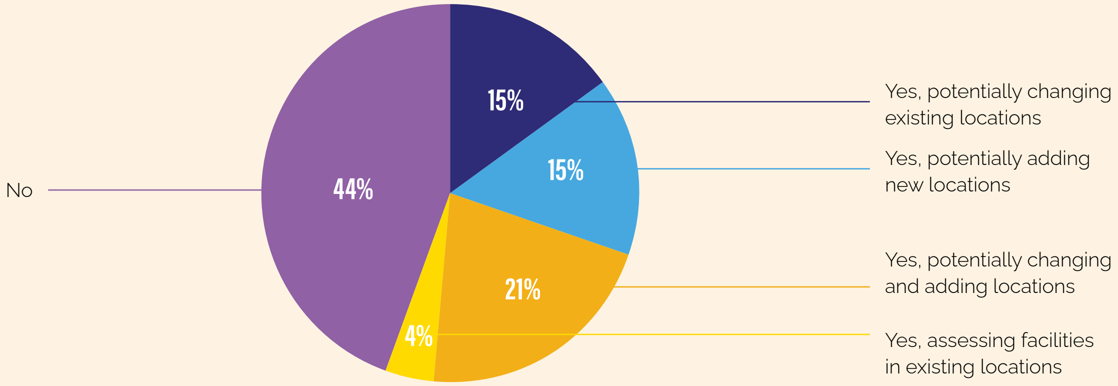
As a result of wage inflation and labor markets, 62% are considering a review of their locations.

Is your existing location structure (footprint) the right one (considering all current internal and external drivers)?



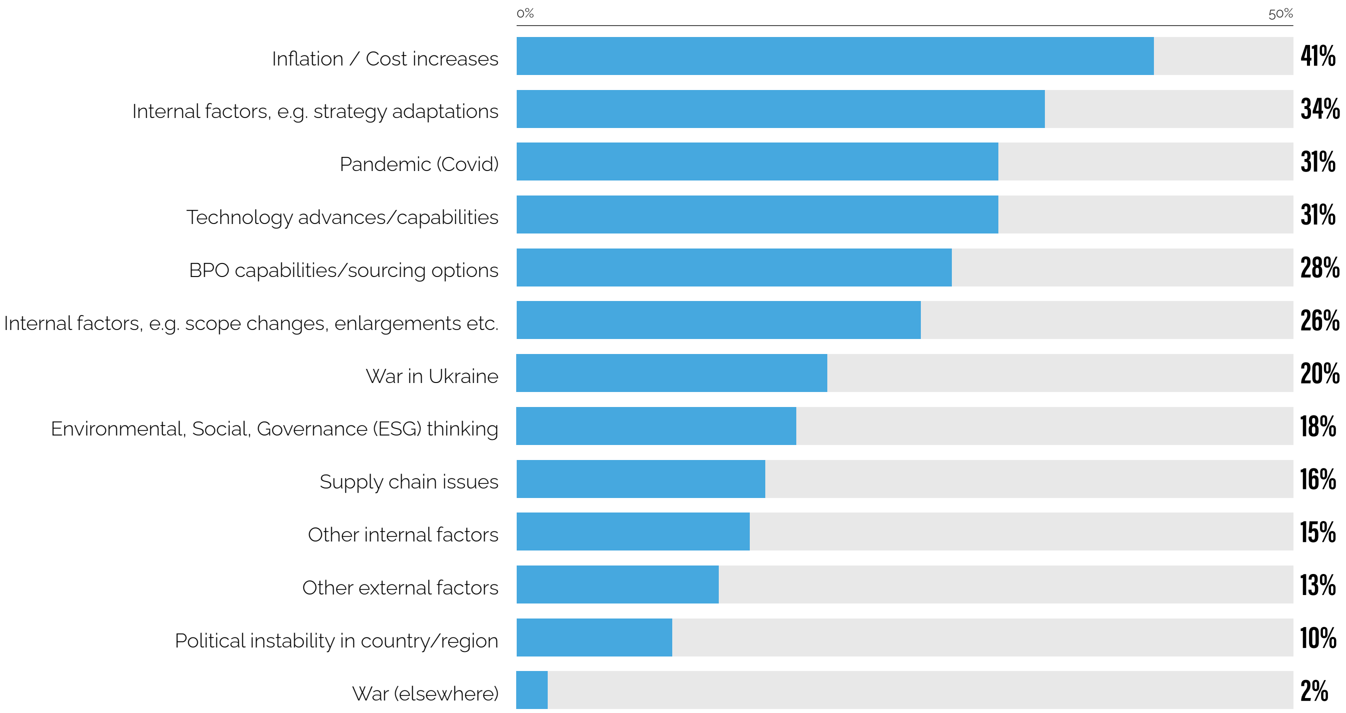
A quarter believe they need to change footprint; the rest thinks they can compensate in other ways.

Do you have a desire, discussion or project ongoing to assess/re-assess the current location structure (anything from number of locations to selection of locations to facility changes)?



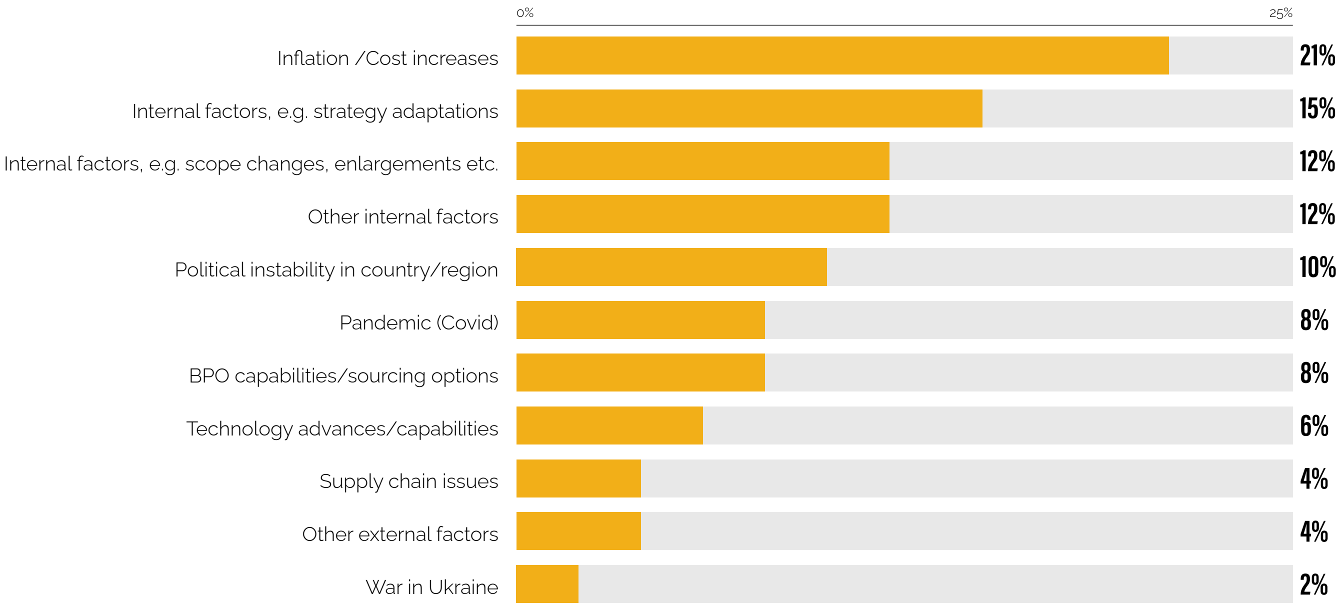
We are already seeing shifts: 56% are working on some changes regarding their current location structure; 51% are looking at location change & additions; 44% are ok with their existing locations.

Which of these factors has impacted your desire, discussion or project to assess/re-assess the current location structure/footprint?



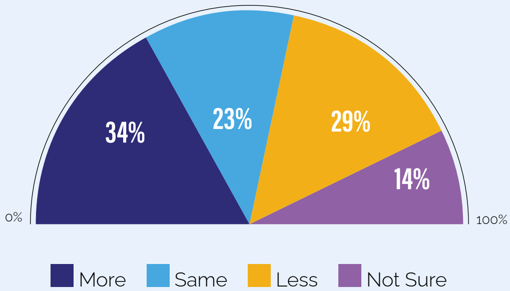
The main factors driving location discussions are first, inflation/cost at 41%; technology advances at 31%, the pandemic at 31%, BPO capabilities at 28% (see [outsourcing research] for technology as the main driver for increased interest in outsourcing). War/ instability together are "only" at 20%. The internal factor is surprisingly high at 75% altogether.

If you have a project initiated or ongoing to assess/re-assess the location structure/footprint, which of these drivers/factors was THE MAIN FACTOR initiating the assessment?



The main factor is cost (21%). Internal factors (strategy, scope, enlargements...) together account for 39%, which is very high. Covid as a single main reason is only 8%.

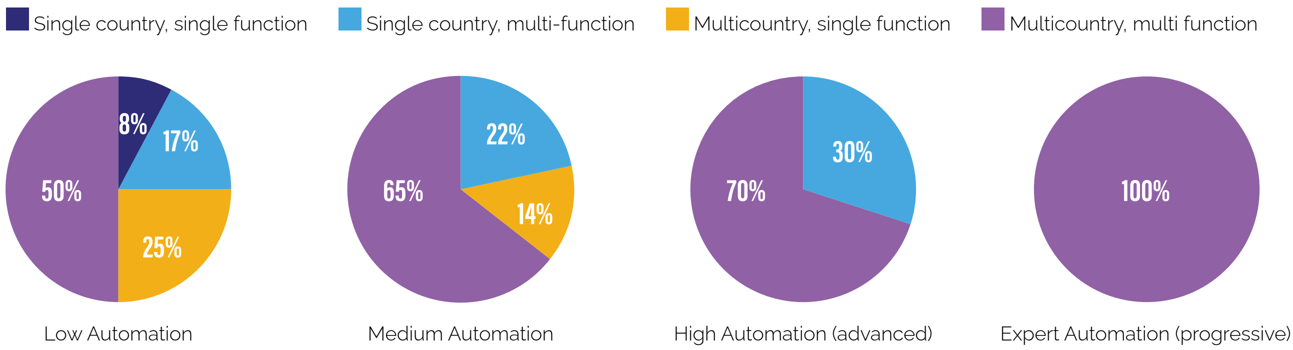
Do you anticipate having more or fewer locations in the future (say 5-10 years from now) compared to today?



In 5-10 years' time, 34% expect to have more locations than they do today! 23% think they'll have the same, and 29% less.

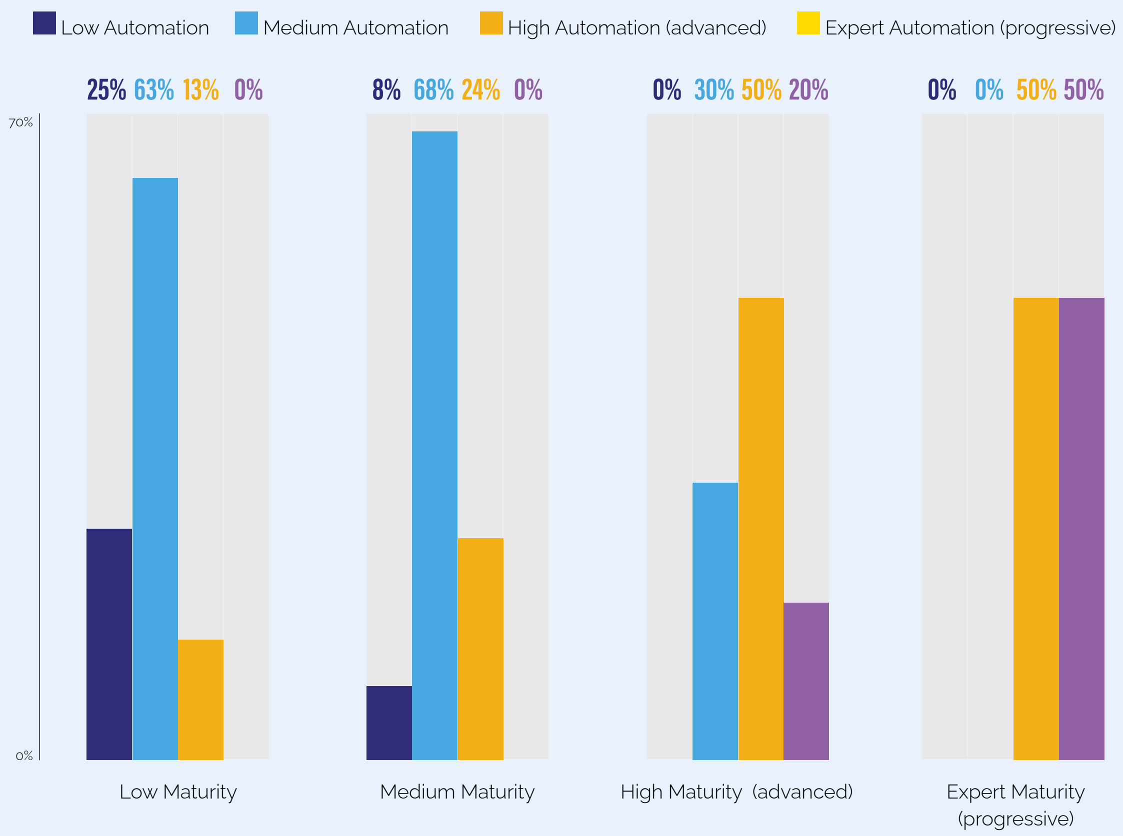
Analyzing data trends by level of automation

What type of GBS/SSO are you?



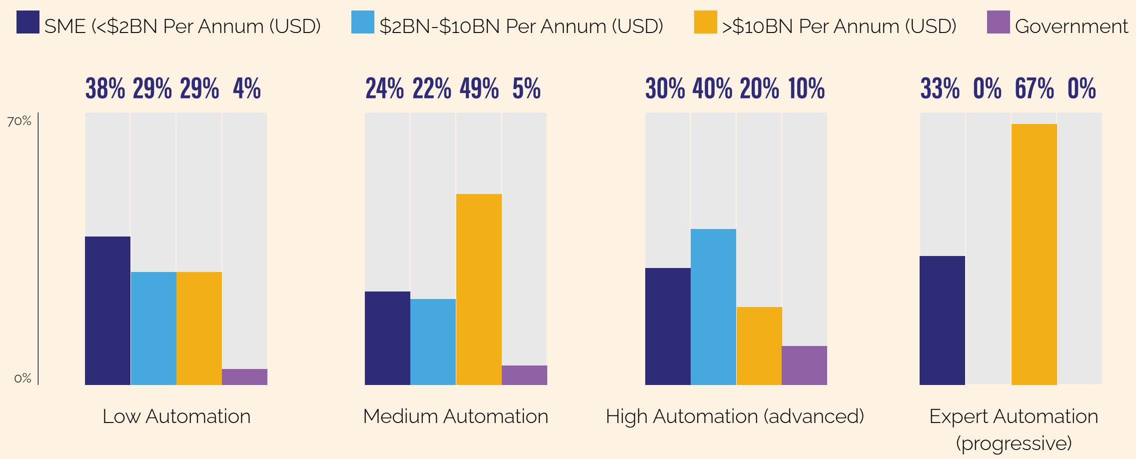
High levels of automation correlate with multicountry/multi-function to some extent: all expert (automation) are multicountry/ multi-function. However, 67% of low automation are also multicountry/multi-function, so a high number of broader setups (mostly considered mature) are low automation, and mainly leveraging labor arbitrage.

What do you perceive to be your overall maturity level?



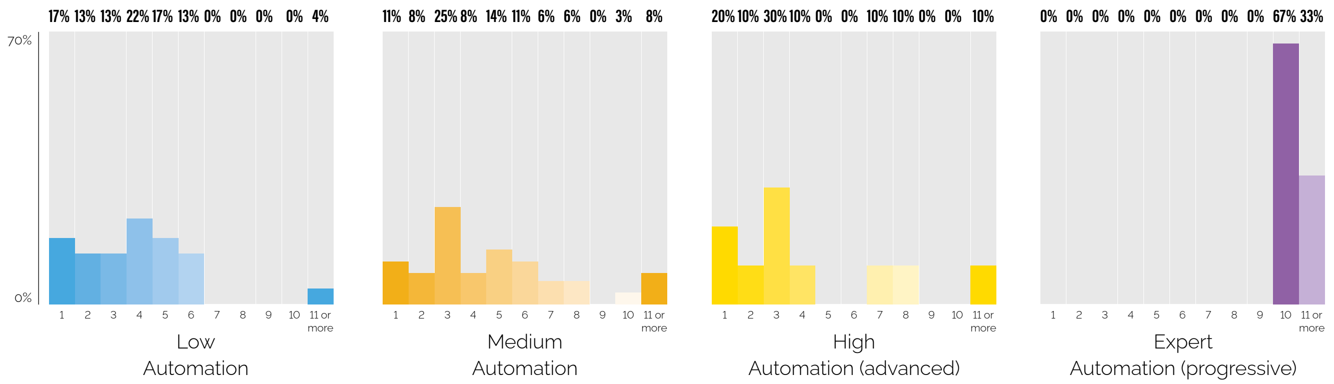
There is a very strong correlation between maturity and automation.

What best approximates the size of your organization in terms of revenue?



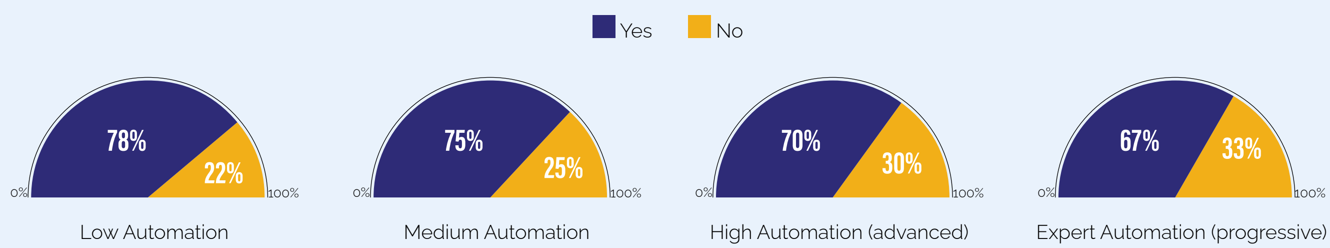
Large companies believe they are better in automation (67% of expert automation companies are over $10bn).

How many locations does your SSO/GBS/BPO include in total?



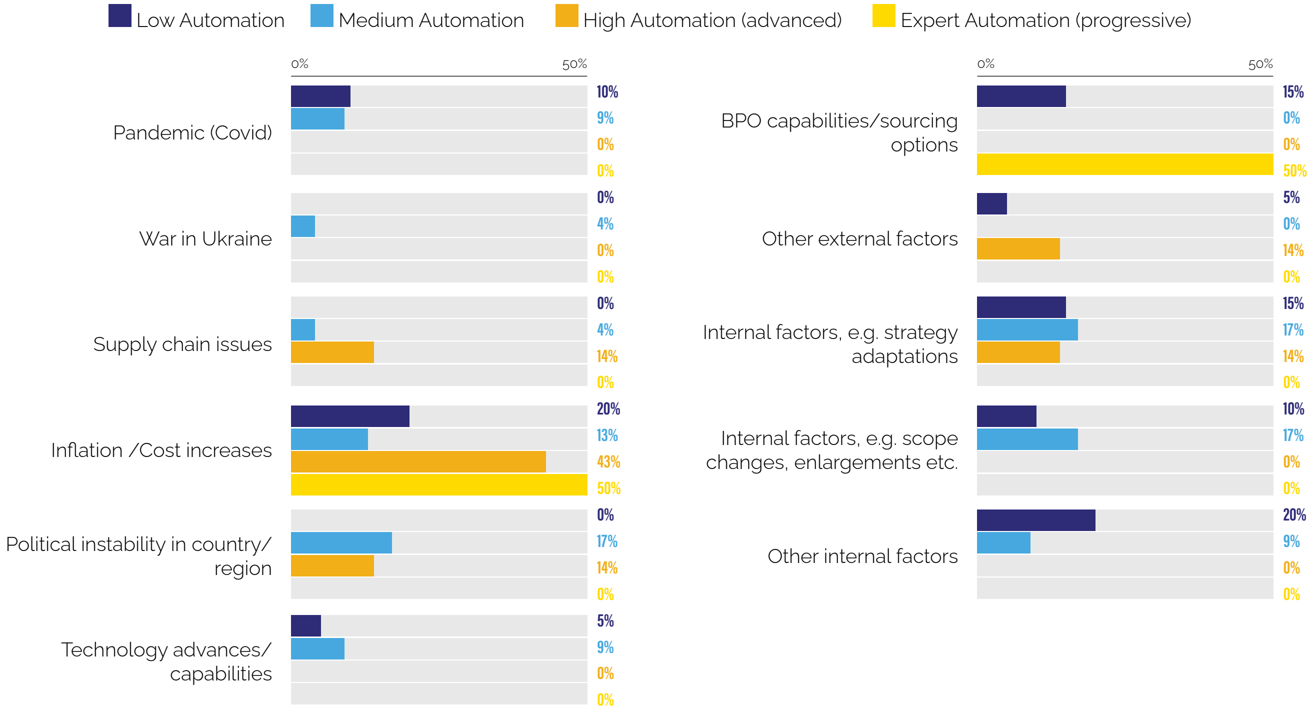
There is a correlation between automation and number of locations: all expert automation companies have 10 or more locations, whereas 96% of low automation companies have 1-6 locations. Clearly some have taken the approach to automate, and are not worried about consolidation; others have consolidated, taken the wage arbitrage, and not automated. The rest are in between.

Is your existing location structure (footprint) the right one (considering all current internal and external drivers)?



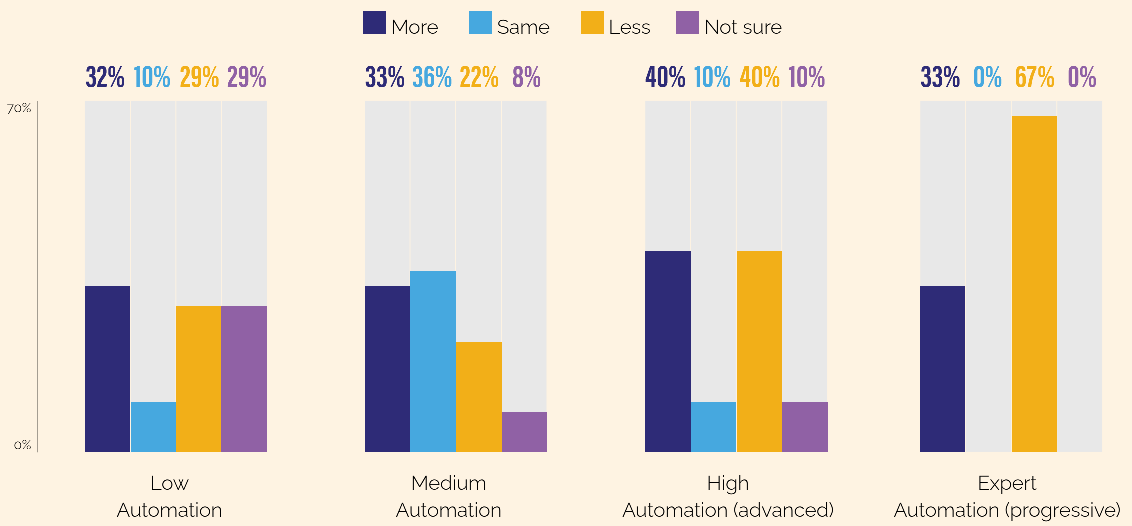
The existing location structure is ok for 78% of low automation companies; but only 67% of expert automation companies.

If you have a project initiated or ongoing to assess/re-assess the location structure/footprint, which of these was THE MAIN FACTOR initiating the assessment?



The main factor for low automation companies are: internal factors 43%, technology 29%, ESG 0%; whereas expert automation companies name 100% external reasons (supply chain crisis, political instability) and 0% internal or technology.

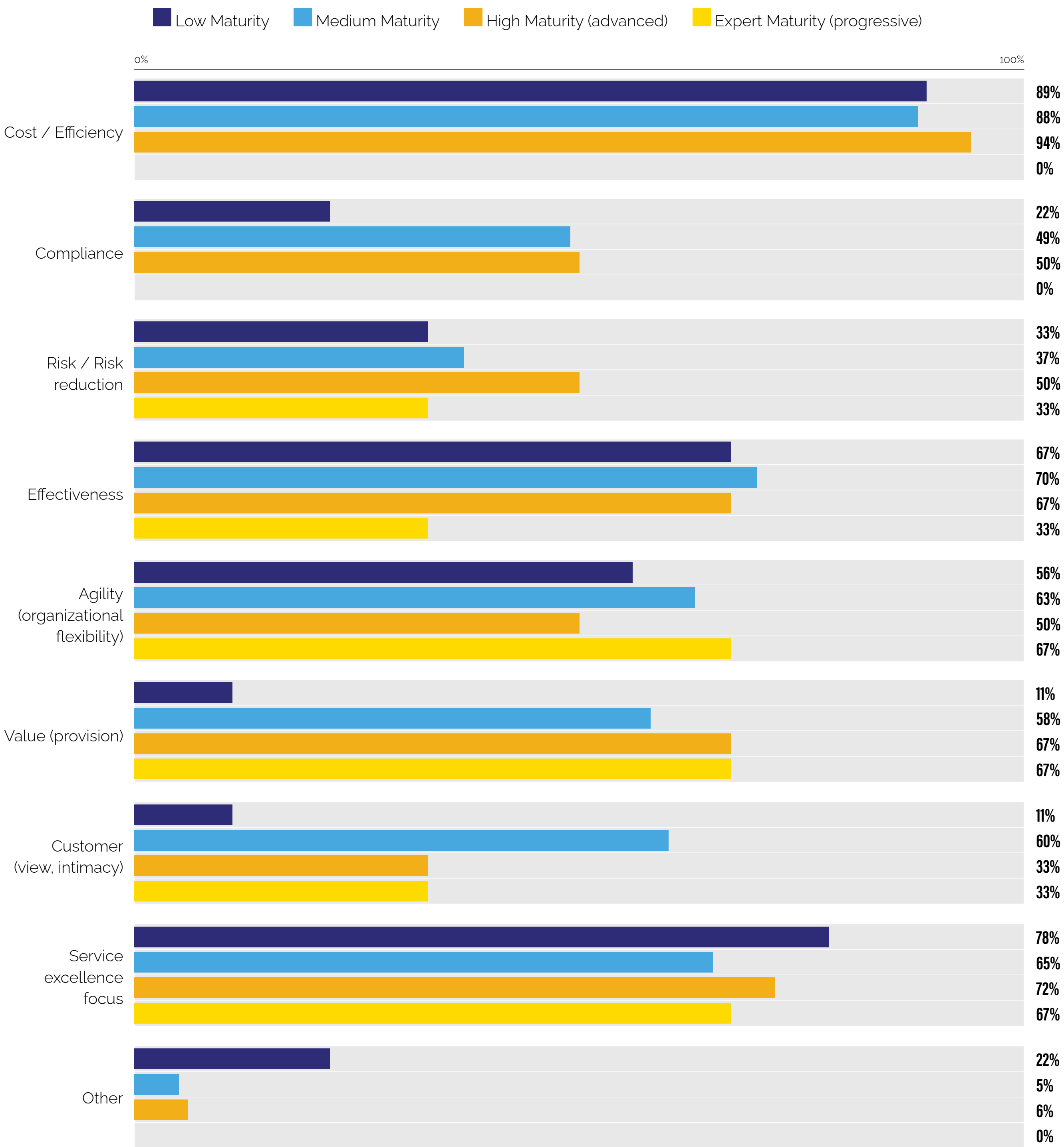
Do you anticipate having more or fewer locations in the future (say 5-10 years from now) compared to today?



Higher automation companies anticipate having fewer locations in future (but they are coming from a 10+ center base), whereas lower automation companies expect to have more locations.

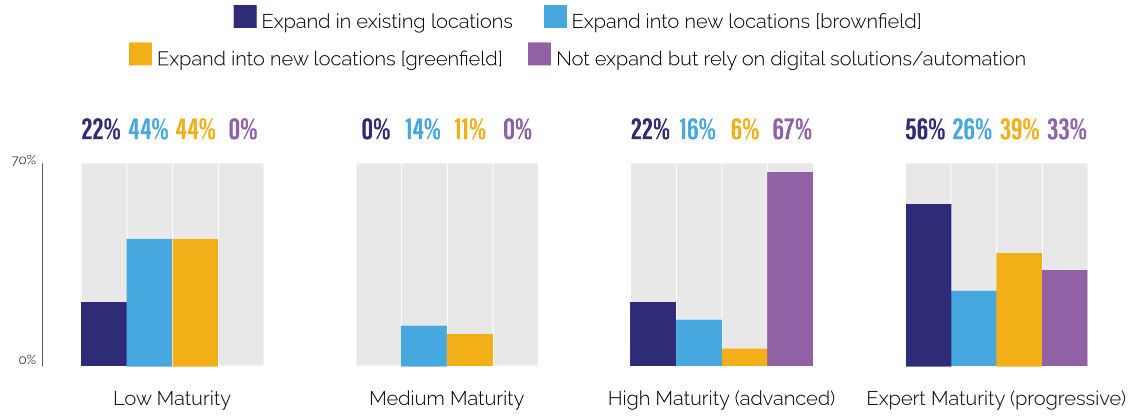
Analyzing data trends by maturity

What are your GBS/SSO strategic targets (direction) in general?



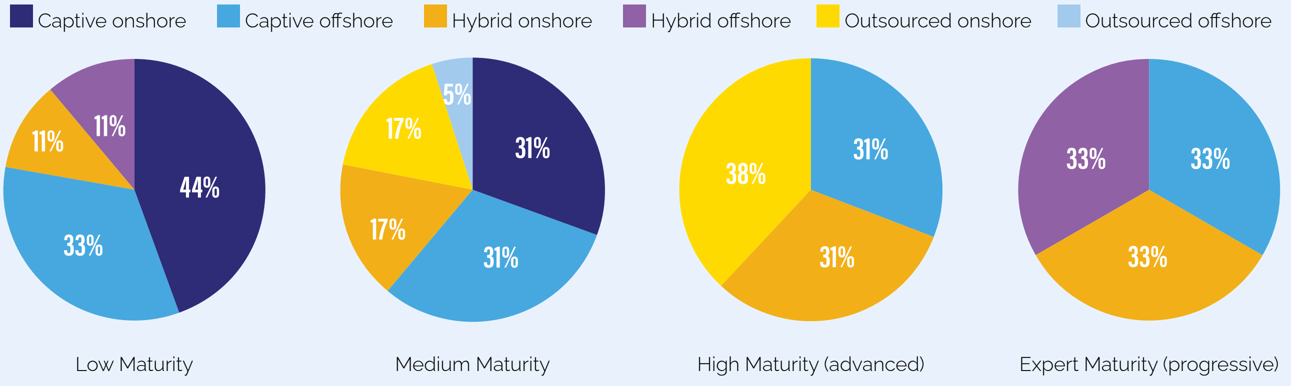
66% of high maturity companies list value as a priority; low maturity only 11%.

How are you managing/planning to manage an increase in scope of work?



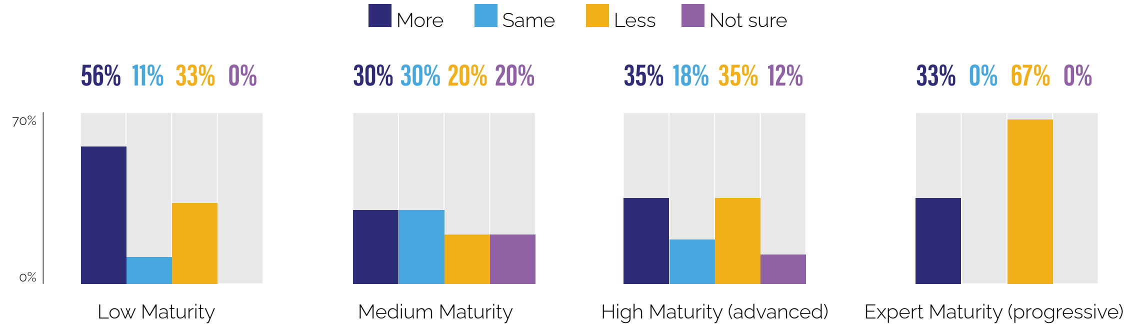
55% of low maturity focus on technology/automation for scope increase management; 67% of expert maturity focus on new greenfield locations.

What is your CURRENT primary sourcing/shoring combination?



High maturity are more often offshored, hybrid, outsourced; low maturity are mostly captive onshore (44%). (Despite this, 56% of low maturity want to move to hybrid offshore.)

Do you anticipate having more or fewer locations in the future (say 5-10 years from now) compared to today?

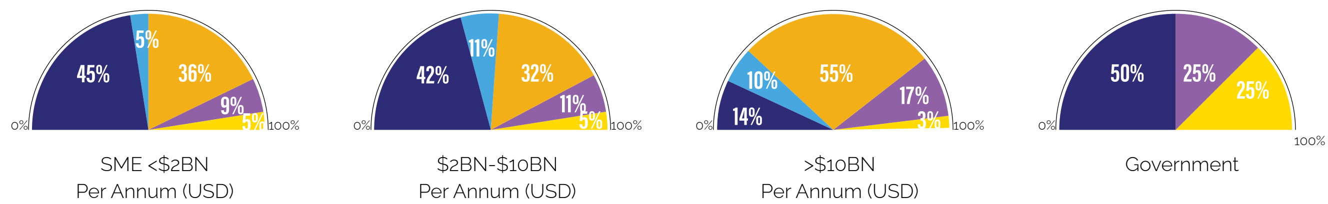


56% of low maturity expect to have more locations; in contrast to expert maturity, where only 33% expect to see more locations.

Analyzing data trends by size of enterprise

What is your main concern about risk today?

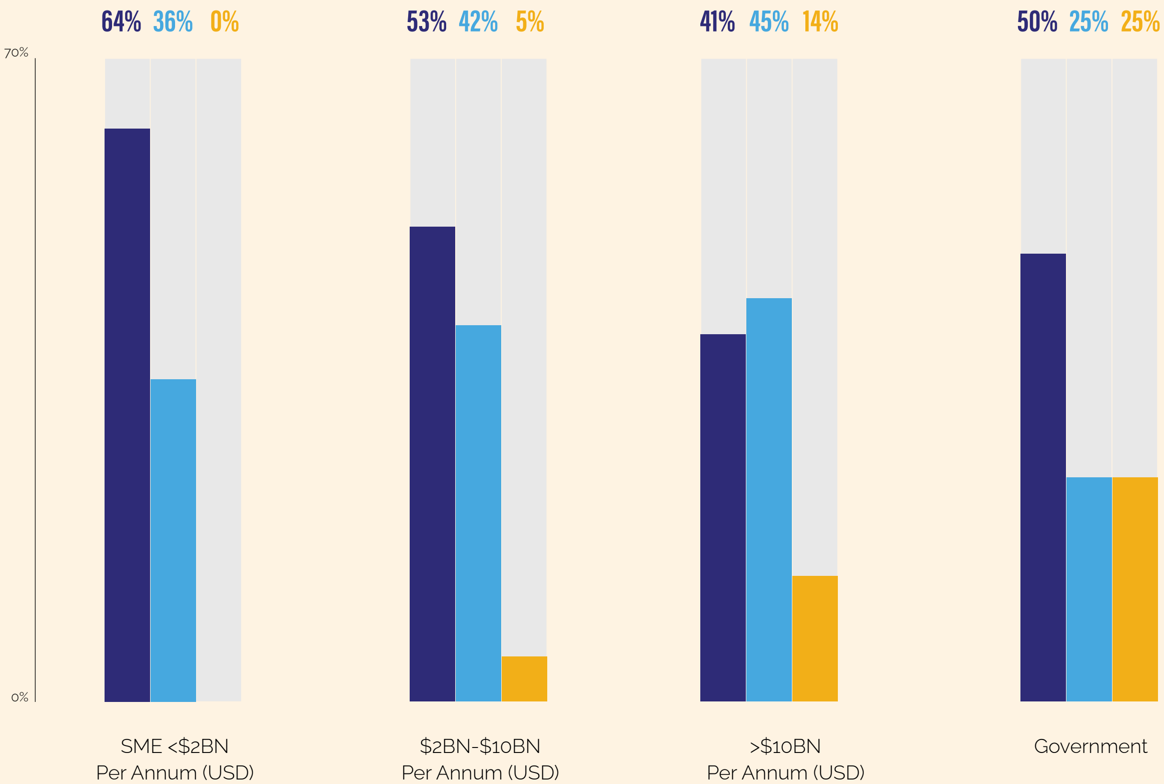
Economic/inflation/cost increase   Political/Unrest   Talent/Workforce scarcity/attrition
Inability to leverage a digital mindset/culture   Other



Large companies are more worried about talent (55%) than cost (14%).
For SMEs it is the opposite: 50% cost, 25% talent.

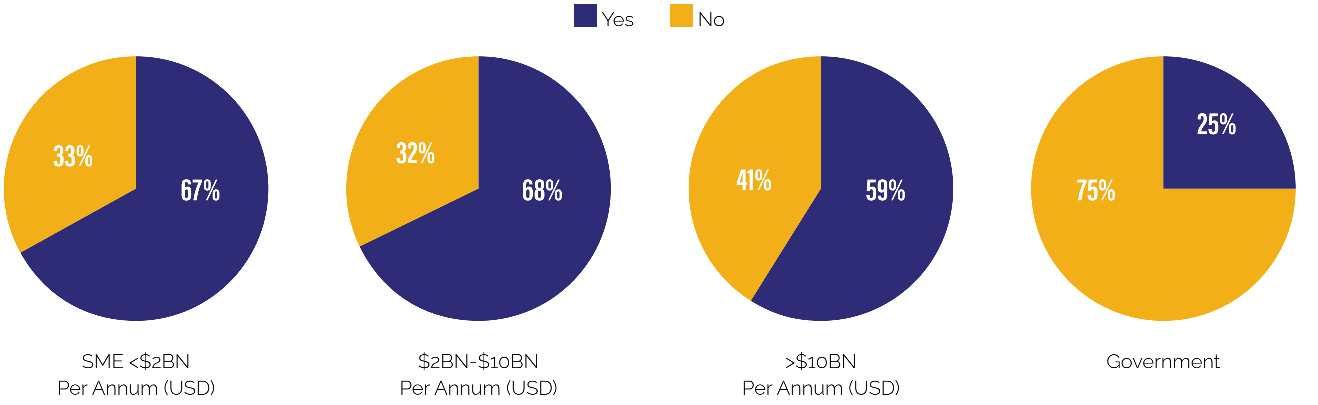
To what extent is your current location footprint exposing you to the risk you selected above or mitigating against it?

I believe our current location footprint exposes us to this risk
I believe our current location footprint means we are well-balanced in terms of this risk
I believe our current location footprint means we are well-hedged or protected against this risk



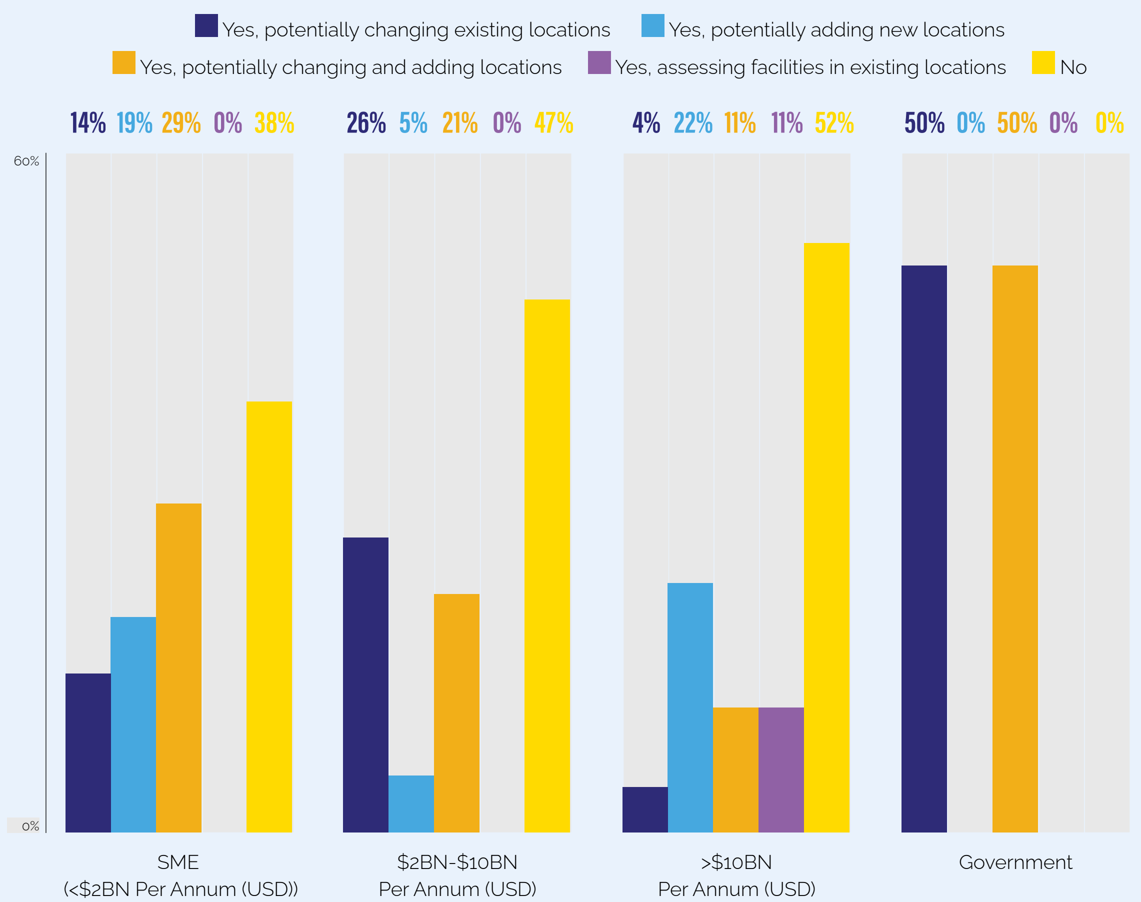
SMEs believe their footprint exposes them more to risk (64%). In large companies, only 41% believe the same (majority is well hedged or mitigating).

Are global wage inflation and tightening labor markets driving a change in (or review of) your geographical footprint (site locations)?



67% of SMEs say yes, compared to only 59% of large companies and 25% Government.

Do you have a desire, discussion or project ongoing to assess/re-assess the current location structure (anything from number of locations to selection of locations to facility changes)?



62% of SMEs are already considering other locations, compared to only 48% of large companies.

RESEARCH & ANALYTICS

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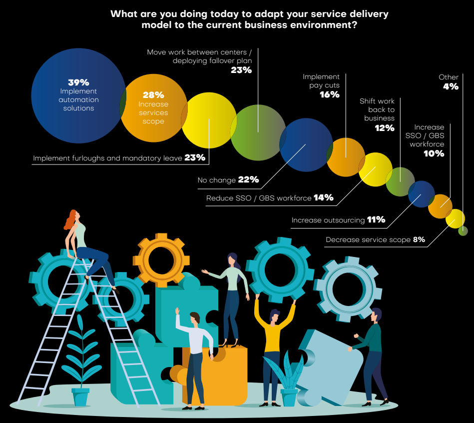
SSON regularly canvases its membership for updated metrics and analytics, allowing us to highlight even minor shifts in the industry. SSON R&A distinguishes itself from other associations by offering subscribers direct access to relevant metric data at a highly competitive cost.



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