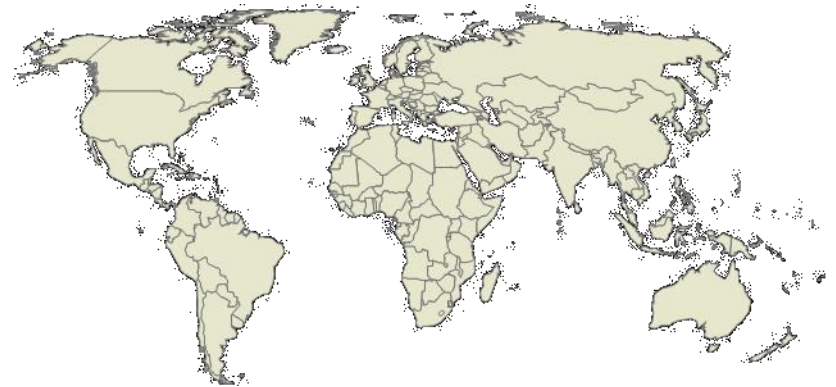




Assessing the offshoring option:

***Everything you need to know
about continuing your HR drive
from an offshore location***



Workshop

Soeren Dressler, PhD
- Director -
Offshoring Institute

London, October 20, 2009

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- China
- India
- Eastern Europe
- Up and coming locations

⇒ The way ahead - what role will HR offshoring play 5 years from now?

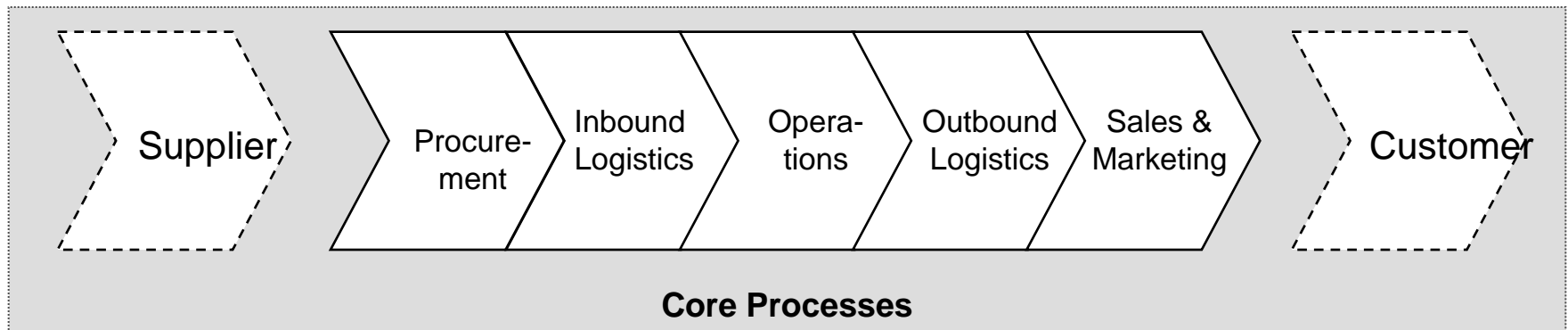
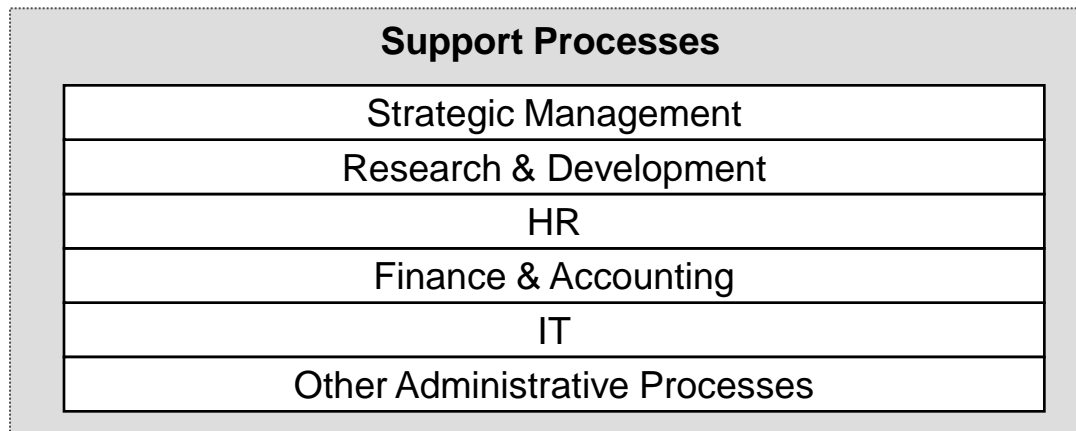
Why Offshoring

Intervention from Corporate and Placement of Staff

	Holding Company	Strategic Headquarter	Operational Headquarter	Functional Organization
Degree Of Corporate Intervention In Businesses	<ul style="list-style-type: none"> Minimal and infrequent Restricted to financial reviews and capital allocations 	<ul style="list-style-type: none"> Limited, often quarterly Focused on strategic and financial review and guidelines 	<ul style="list-style-type: none"> Frequent Focused on operating performance 	<ul style="list-style-type: none"> Intensive and frequent Focused on functional and SBU interaction
Placement Of Staff	<ul style="list-style-type: none"> Tax, Treasury, Legal and Investor Relations at corporate level All other at operating entity level Support functions in offshored Shared Services, Outsourcing 	<ul style="list-style-type: none"> Strategic, Legal and Corporate Finance functions, HR Policy & Strategy at corporate level All other at BU level Shared services may be appropriate 	<ul style="list-style-type: none"> All operations at corporate level and operating entity level 	<ul style="list-style-type: none"> Key operating functions at corporate level
Size Of Corporate Staff	<ul style="list-style-type: none"> Minimal 	<ul style="list-style-type: none"> Medium/small 	<ul style="list-style-type: none"> Large 	<ul style="list-style-type: none"> Large
Size Of Business Unit Mgmt. Staff	<ul style="list-style-type: none"> Large 	<ul style="list-style-type: none"> Medium/small 	<ul style="list-style-type: none"> Small/Medium 	<ul style="list-style-type: none"> Minimal

Why Offshoring

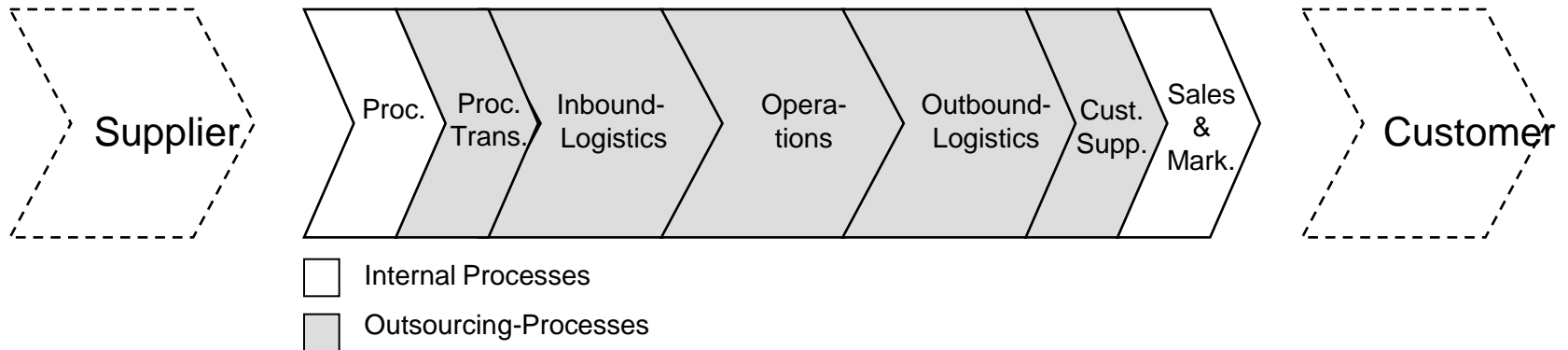
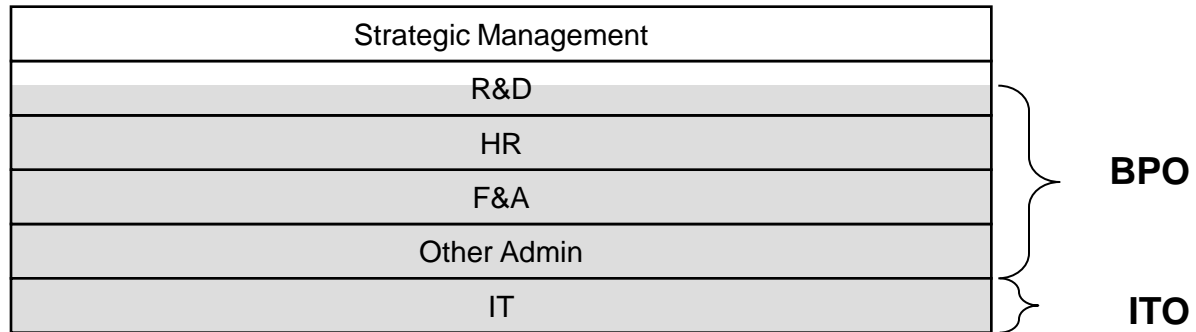
BPO now means Outsourcing of Support Processes, SSC can be considered as “internal Outsourcing”



Why Offshoring

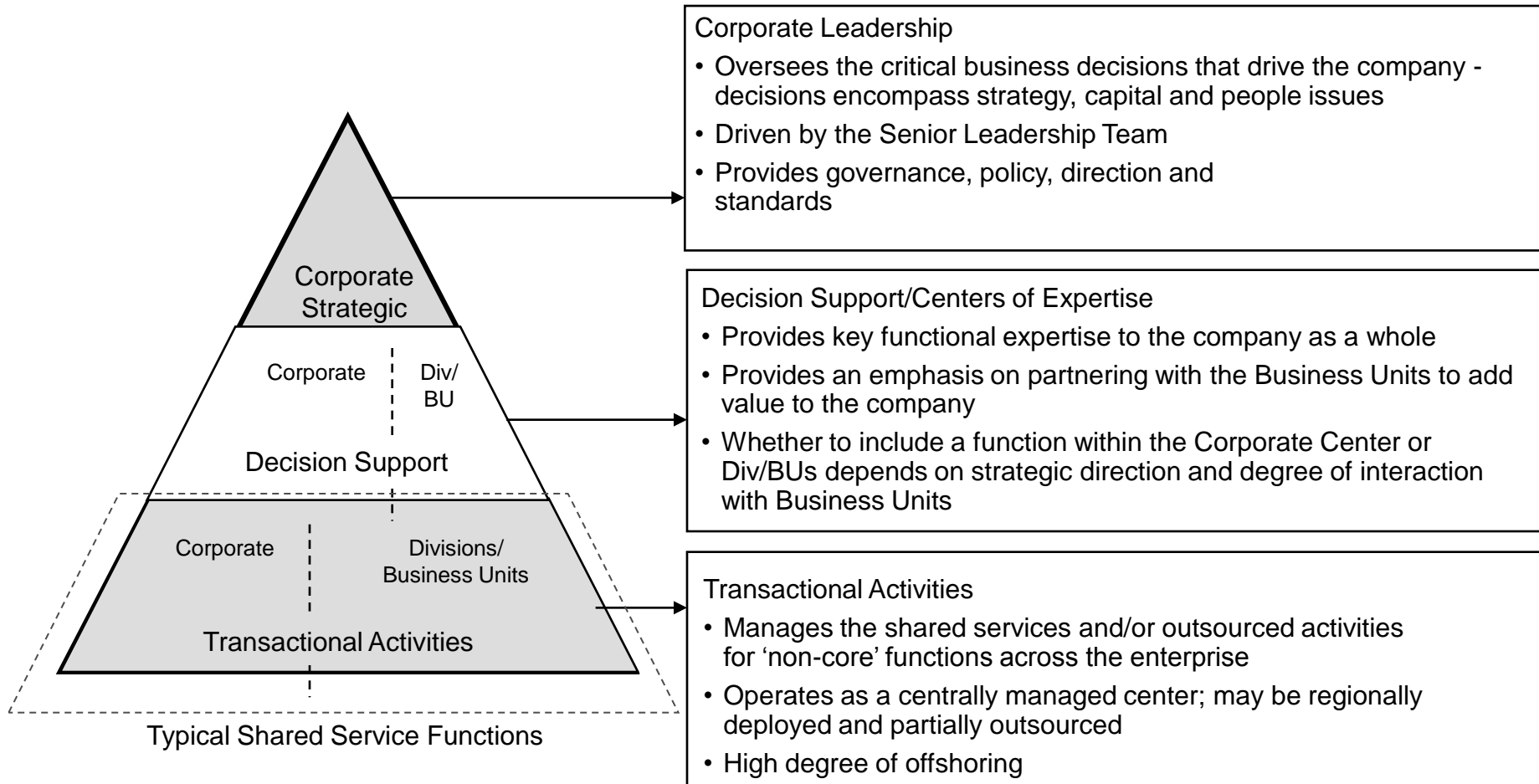
The complete Outsourcing Model (Theory)

➔ A Vision to become Reality soon



Why Offshoring

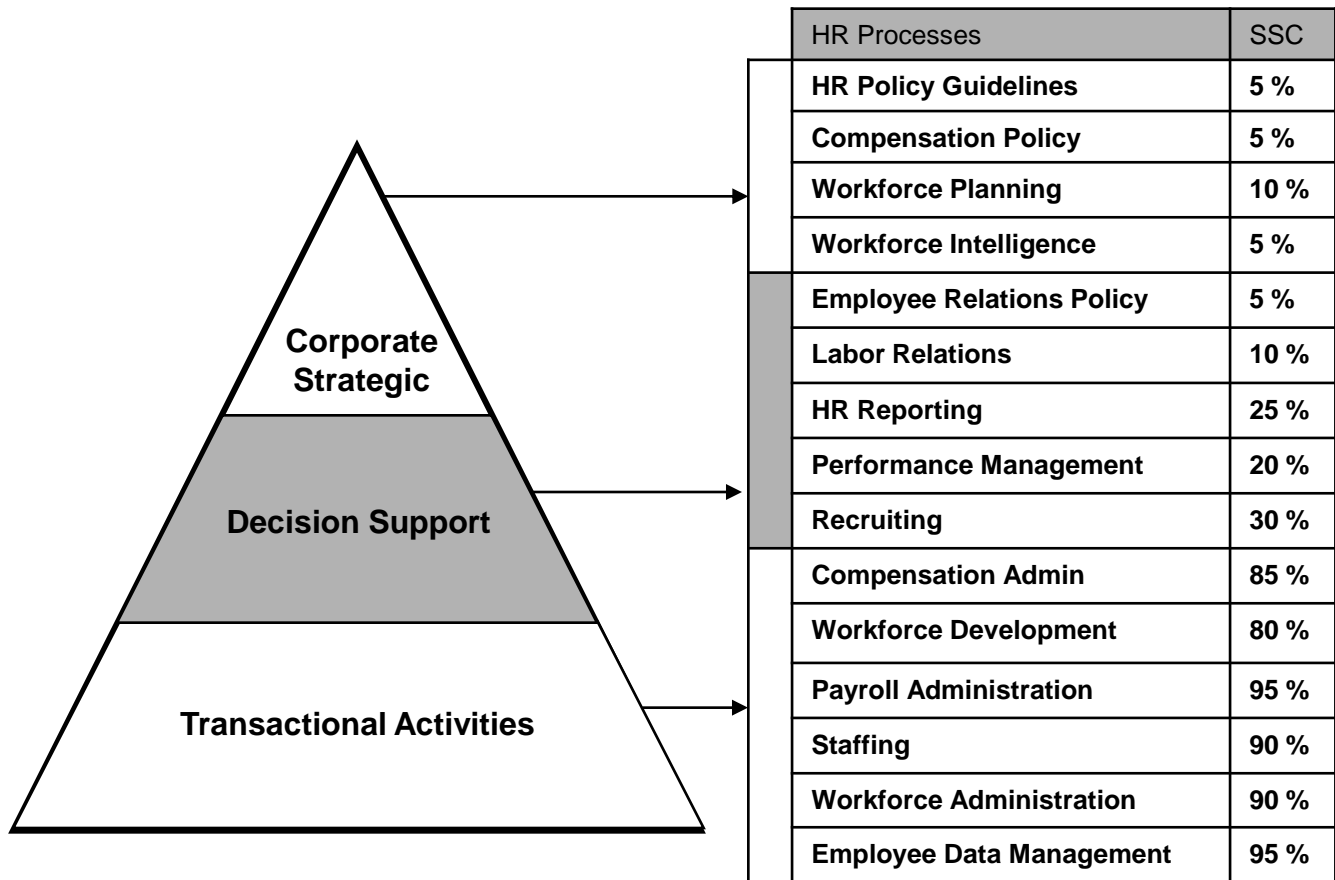
BPO and Shared Services – Assessment Approach to identify Opportunities



Why Offshoring

SSC/ BPO potential of HR processes

Example

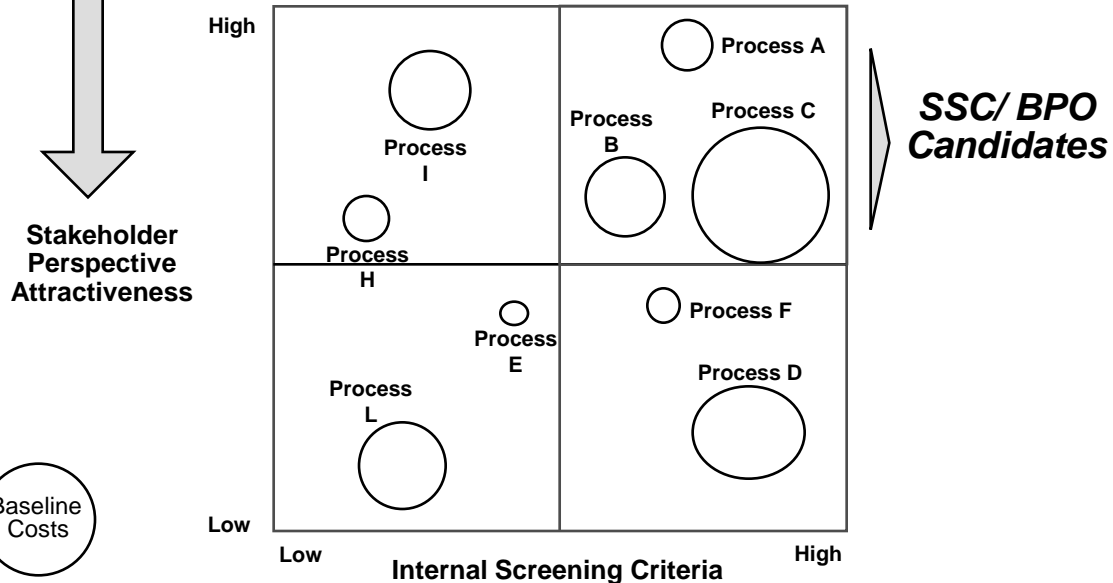


Why Offshoring

1 Stakeholder Perspective

- Business Criticality
- Complexity of Process
- Level of Expertise Required
- Shared Service Potential
- Current Quality of Service
- Competitive Differentiator

Shared Services Prioritization and Decision Matrix



2 Internal/Market Analysis

- External Market Availability/Maturity
- Budget vs. Benchmark Analysis
- Technology Readiness
- Functional and Process Readiness
- Ease of Implementation

Why Offshoring

Support Functions typically move through various stages of development

Decentralized/ Fragmented	Centralized/ In-house	Shared Services/ In-house	Off-shore
<ul style="list-style-type: none"> • Lack of “customer” focus • Inefficient processes • Inconsistent effectiveness (sporadic service performance) • Varying service levels • Dispersed, un-managed costs • Geographically scattered functions 	<ul style="list-style-type: none"> • Generally efficient • Existence of cost focused metrics • Base level effectiveness – no distinction of customer types/requirements • Standard/potentially inappropriate service levels • No or blanket charge back mechanism – lack of customer transparency regarding value 	<ul style="list-style-type: none"> • Efficient and effective functional performance • High service levels based on mutual agreement • Embedded accountability for performance • Sophisticated, customer-accepted charge back mechanism 	<ul style="list-style-type: none"> • High efficiency/effectiveness • Tremendous value from labor arbitrage • Access to highly educated talent
			<p style="text-align: center;">Outsource</p> <ul style="list-style-type: none"> • Professional management retained in-house with strong vendor management capabilities • Benchmarked quality/pricing • Negotiated, measured service levels • Freed resources and focus on core activities of organization

I

II

Stages III

IV

This transition is not necessarily linear — and a given company’s path will vary according to its individual situation

Why Offshoring

Captive vs. BPO / Onshore vs. Offshore

BPO	Onshore Outsourcing	Offshore Outsourcing
Captive	Captive SSC Onshore	Captive Offshore SSC
	Domestic/ Onshore	Offshore

- ➔ Optimizing the back office can be done in many different ways
- ➔ Impact on the economy are mainly important as soon as offshore components are integrated
- ➔ Often mixed models between the four quadrants can be found

Why Offshoring

Offshoring – Terminology and Examples

Offshoring

=

Moving of certain Business Activities to a different continent in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
Rolls Royce
UK-based Corporation moves certain functions to India

Nearshoring

=

Moving of certain Business Activities to a different country on the same continent in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
Whirlpool
US-based Corporation moves certain functions to Canada

Onshoring

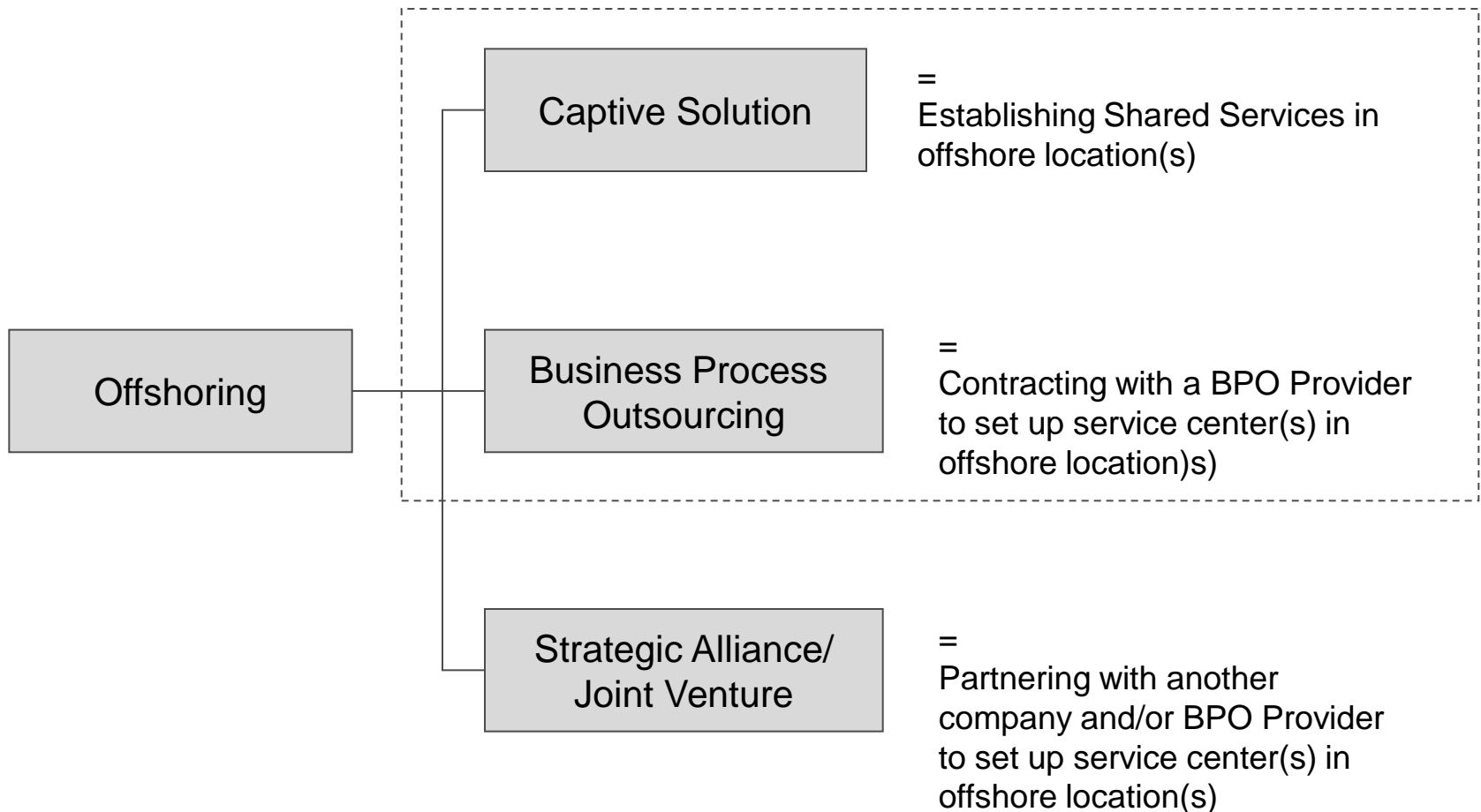
=

Moving of certain Business Activities to a different location in the same country in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
FIAT
North Italian-based Corporation moves certain functions to South Italy (Bari)

Why Offshoring

Options to realize Offshore Solutions



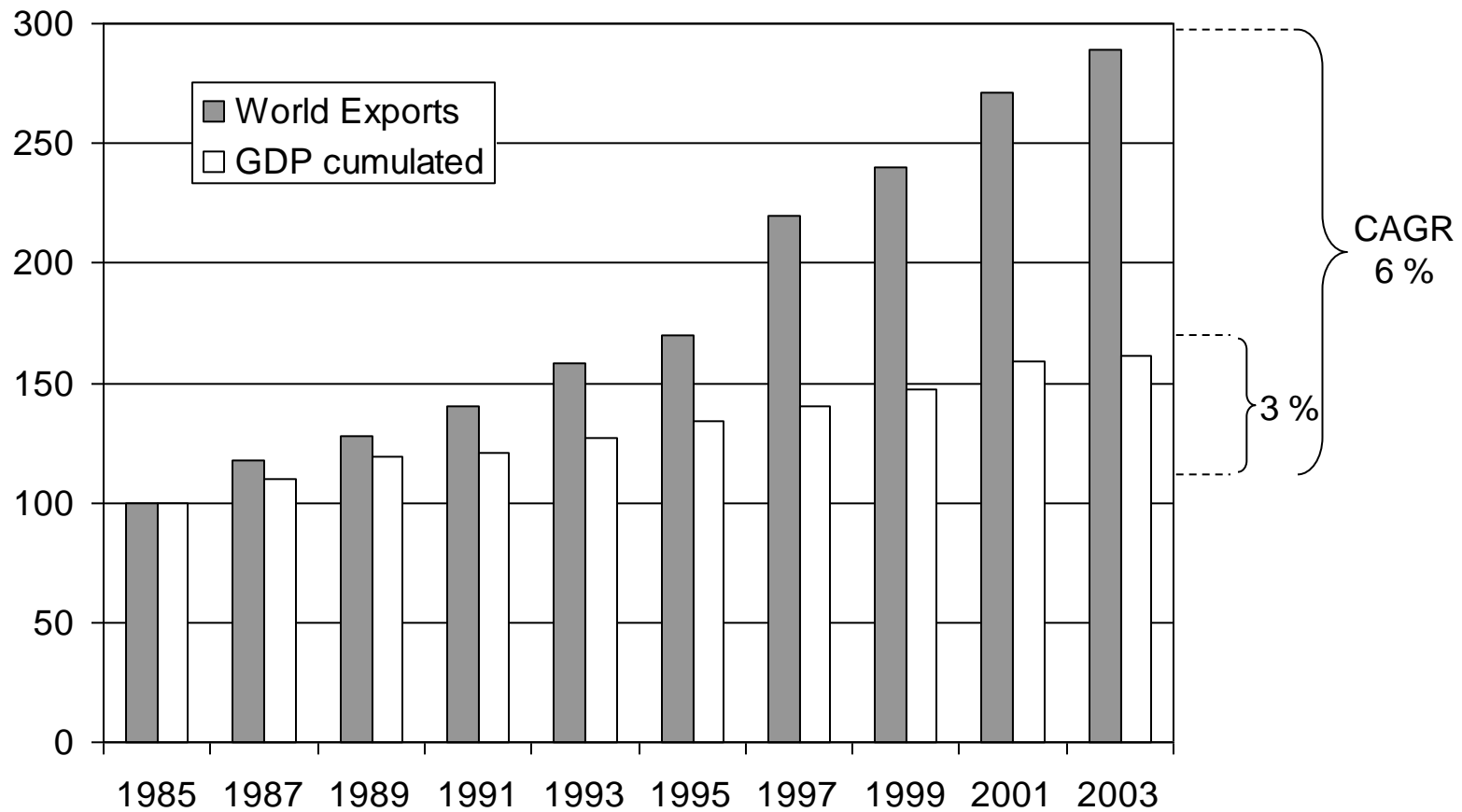
Why Offshoring

Offshoring Models - Comparison

Offshoring Model	Advantages	Disadvantages
Captive	<ul style="list-style-type: none"> ▪ Largest cost savings ▪ Lowest risk to data and intellectual capital security ▪ Maintains culture and process expertise 	<ul style="list-style-type: none"> ▪ Longest time to achieve maturity and generate savings ▪ Highest investments and exit costs
Outsource	<ul style="list-style-type: none"> ▪ Leverages provider familiarity with offshore operations ▪ Influence of scale ▪ Low exit costs ▪ Optimizes expertise by function 	<ul style="list-style-type: none"> ▪ Providers lack scale to serve company's needs ▪ Complexity of managing multiple relationships ▪ Cultural differences
Strategic Alliance/ Joint Ventures	<ul style="list-style-type: none"> ▪ Limited investment required ▪ Lower business risk due to partner's process experience ▪ Deep process migration expertise ▪ Easier to implement global, multi-country solution 	<ul style="list-style-type: none"> ▪ Lower operational control ▪ Partner may be unfamiliar with offshore marketplace ▪ More limited skill transfer ▪ Potential competitive issues ▪ There may be many other customers

Why Offshoring

Global Exports are on a steady rise since more than two decades



Why Offshoring

Salaries are increasing drastically in Offshoring hotspots

Salary growth rates in an Application Development Center, India (Example)

Level	In % of employees	Salary growth rates
Project Manager	3 %	6 %
Project Leader	5 %	7 %
Team Leader	8 %	15 %
Senior Software Engineer	34 %	12 %
Software Engineer	50 %	11 %

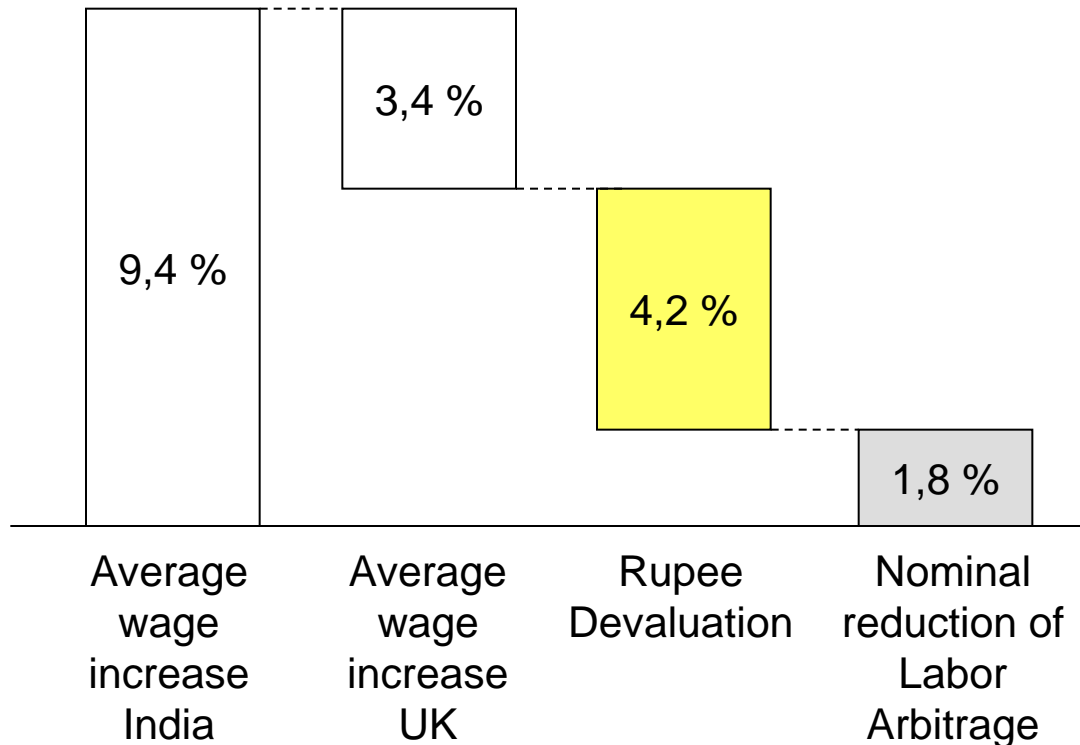
Average 11.5%

- ➔ Salary growth rates are significant in particular for experienced staff
- ➔ High salary growth rates lead to attrition issues
- ➔ How sustainable are these sharp increases ?

Source: Everest Institute

Why Offshoring

The Global Allocation of Work – Sustainability of Cost Advantages

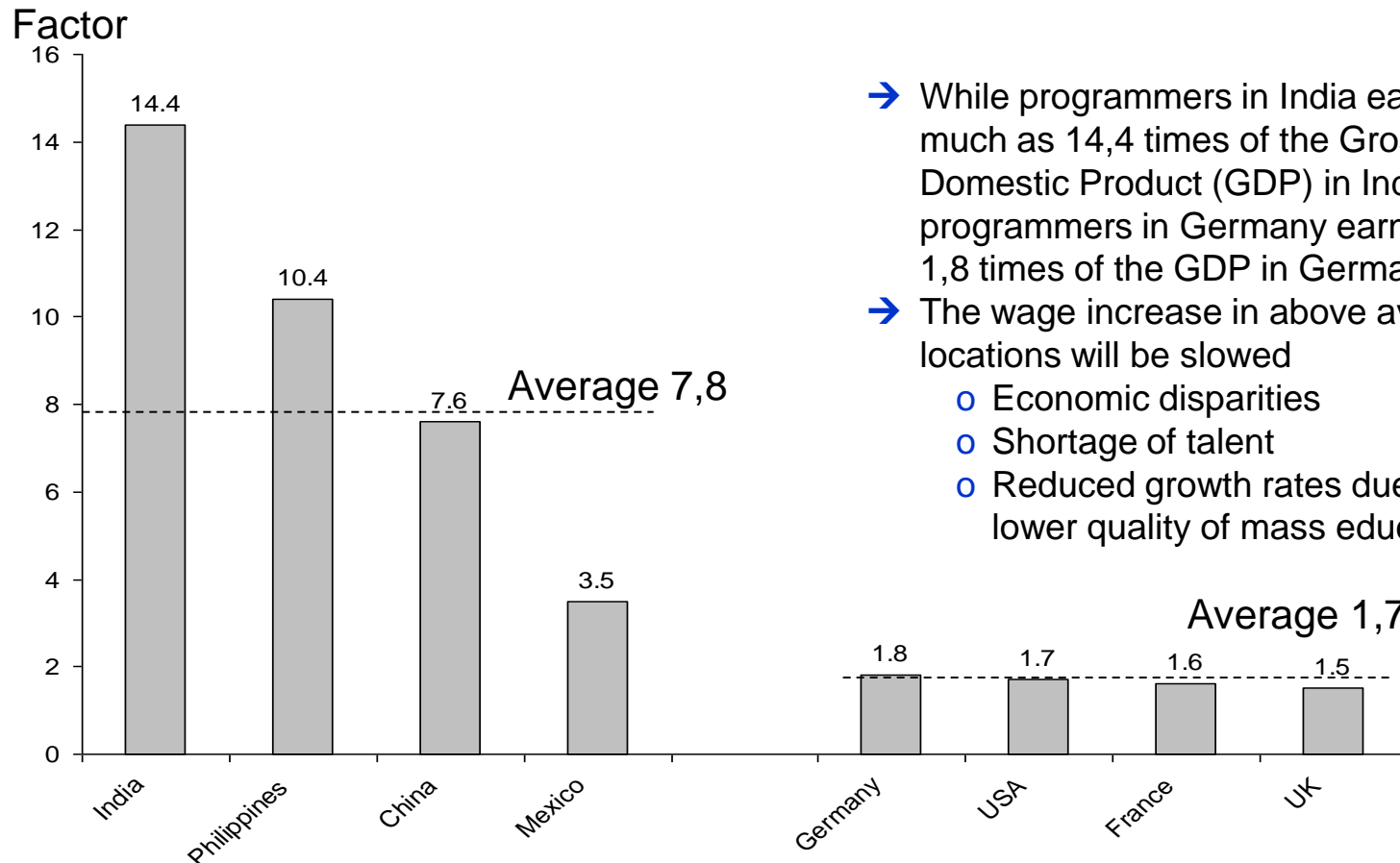


Source: Everest Institute

- Sustainability of labor cost advantages might be better than often thought
- Currency devaluation effects of most low labor cost countries are slowing down the nominal wage increase in these locations
- Even though some Nearshoring/Offshoring hot spots in Asia or Eastern Europe are currently experiencing wage increases in almost two digits the net effect is usually below 2%

Why Offshoring

Economic disparities within low cost countries are slowing down the wage increases



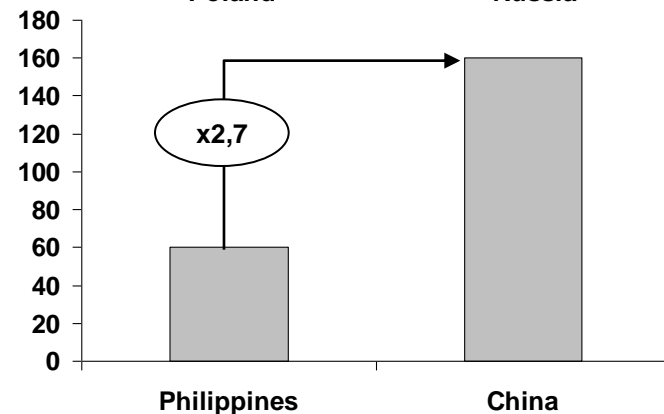
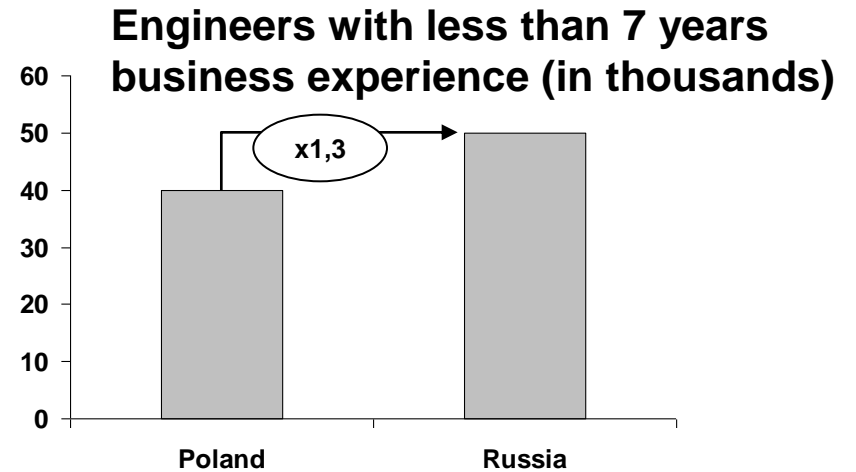
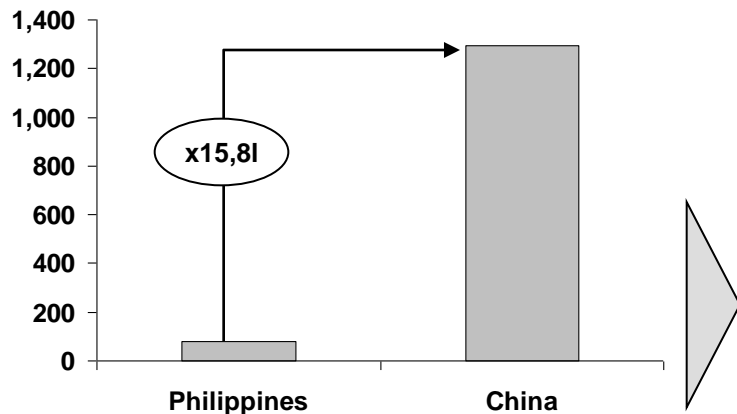
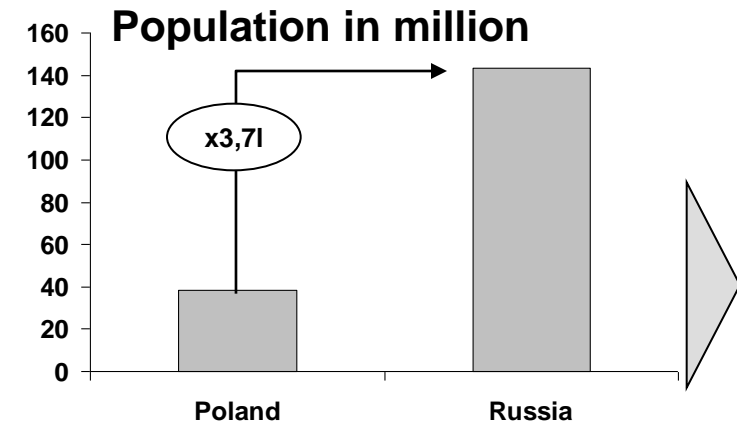
- While programmers in India earn as much as 14,4 times of the Gross Domestic Product (GDP) in India programmers in Germany earn only 1,8 times of the GDP in Germany
- The wage increase in above average locations will be slowed
 - Economic disparities
 - Shortage of talent
 - Reduced growth rates due to lower quality of mass education

Source: Everest Institute



Why Offshoring

Size of the population can be misleading



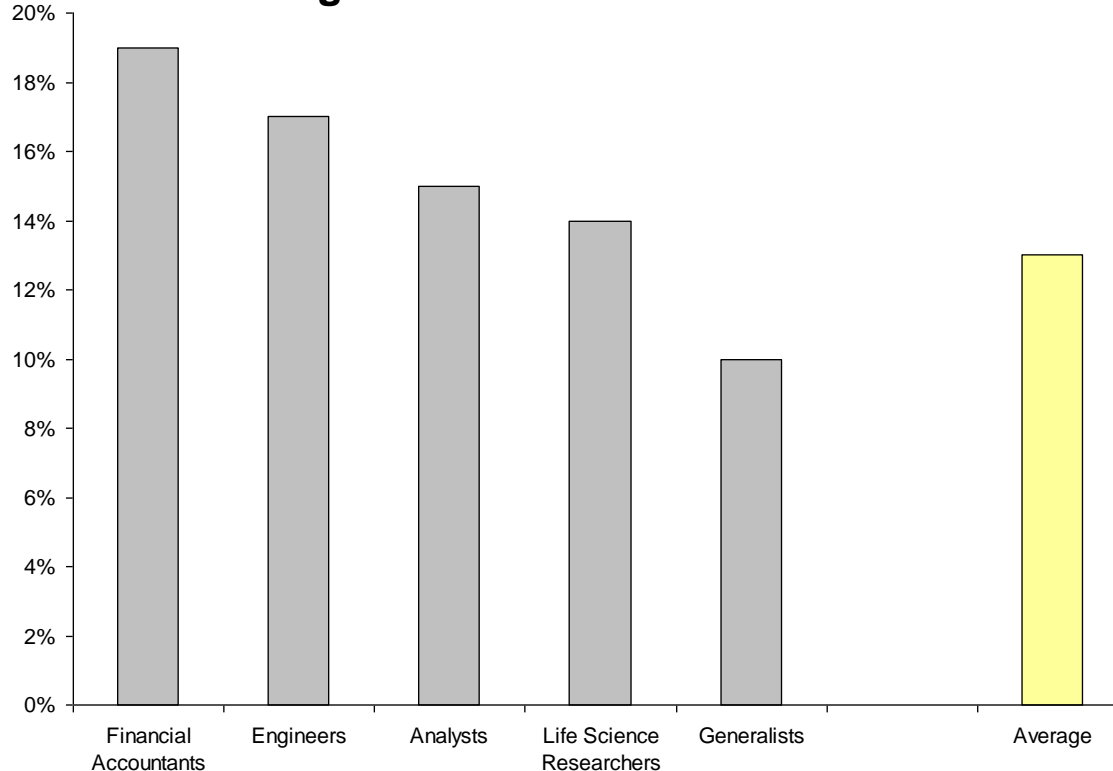
Source: Everest Institute



Why Offshoring

Only few of the college graduates in low cost countries are qualified enough to support international business operations

Qualified graduates for international business in %



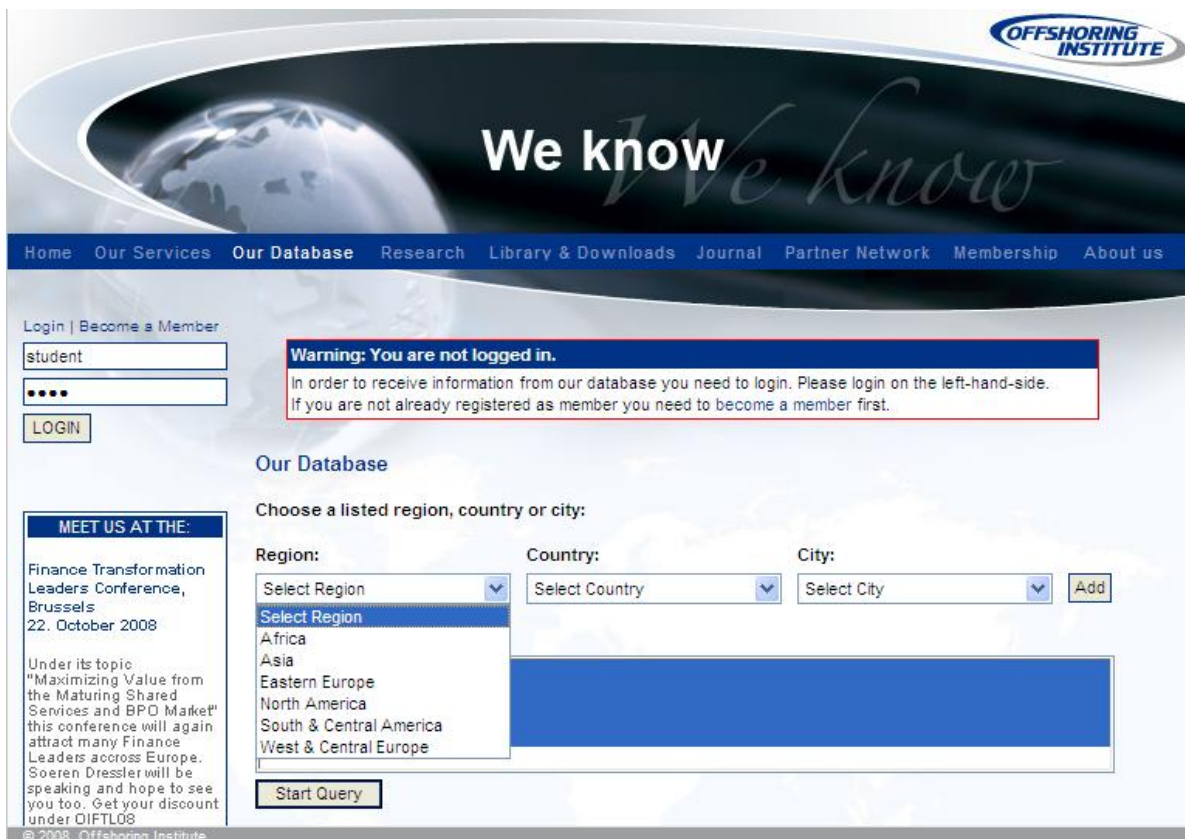
Source: McKinsey Global Institute

- Lack of suitability for international business because of various reasons
 - Language
 - Cultural background and adaptability
 - Quality of education
 - Lack of personal skills (e.g. teamwork, leadership)
 - Missing focus on international requirements (accounting standards, laws and regulations, etc.)

→ Only few of the highly educated work force are willing to work in shifts

Why Offshoring

The Offshoring Institute Database provides a comprehensive set of location data



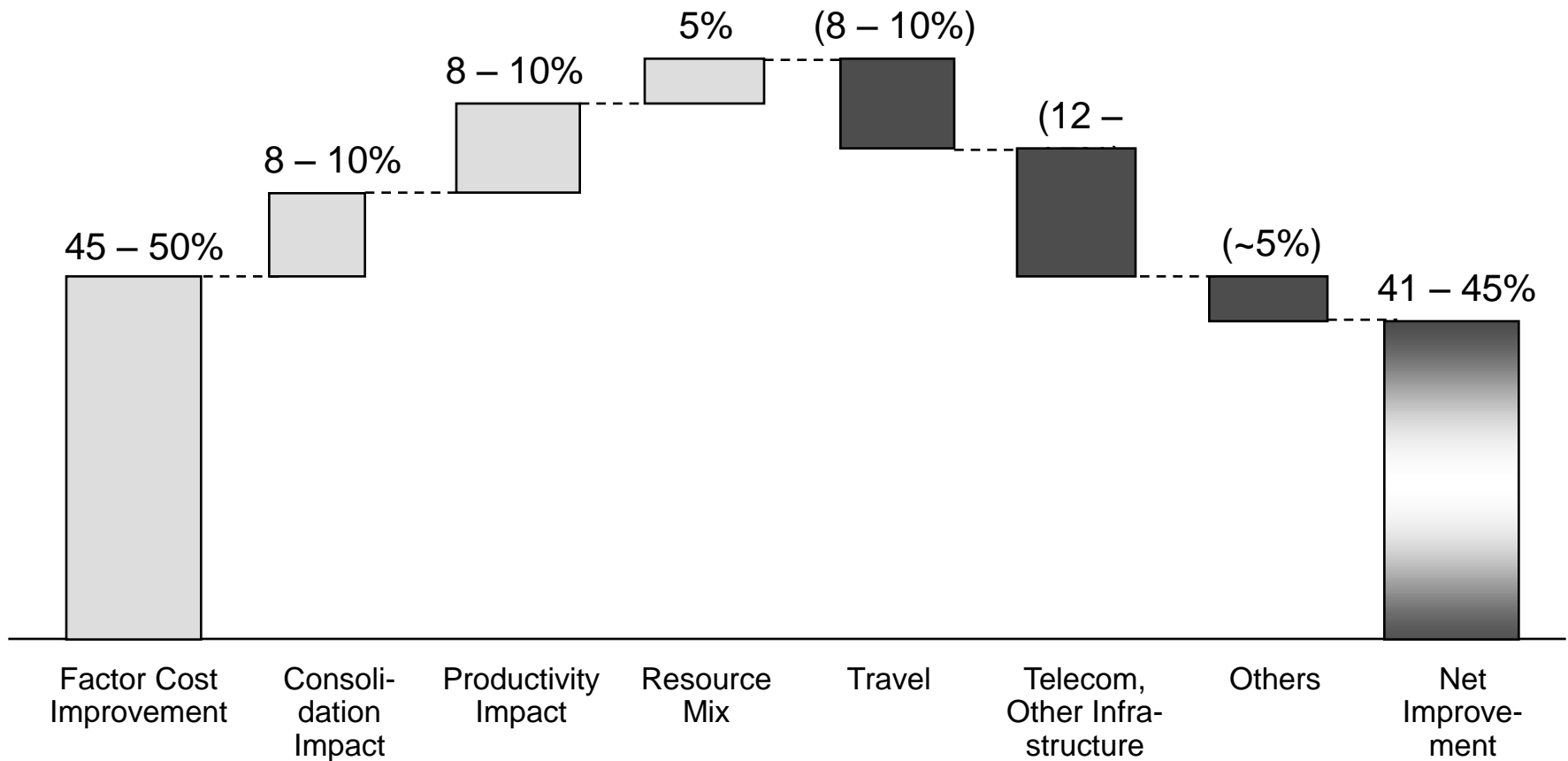
The screenshot shows the Offshoring Institute website. At the top right is the logo. Below it is a navigation bar with links: Home, Our Services, Our Database, Research, Library & Downloads, Journal, Partner Network, Membership, About us. A banner features a globe and the text "We know". Below the banner is a login section with a "student" username, a password field, and a "LOGIN" button. A red warning box states: "Warning: You are not logged in. In order to receive information from our database you need to login. Please login on the left-hand-side. If you are not already registered as member you need to become a member first." Below the warning is the "Our Database" section with a heading "Choose a listed region, country or city:". It contains three dropdown menus for "Region:", "Country:", and "City:". The "Region:" dropdown is open, showing options: Africa, Asia, Eastern Europe, North America, South & Central America, and West & Central Europe. There is an "Add" button next to the "City:" dropdown and a "Start Query" button below the dropdowns. On the left side, there is a "MEET US AT THE:" section with details about a "Finance Transformation Leaders Conference, Brussels" on "22. October 2008".

- www.offshoring-institute.org
- Biggest location database of its kind
- Development project started in 2006
- Currently more than 100 metropolitan areas around the globe
- More than 13.000 criteria, updated on a yearly basis
- Open access ends on Dec 31, 2009
- From Jan 2010 only customized location studies

Why Offshoring

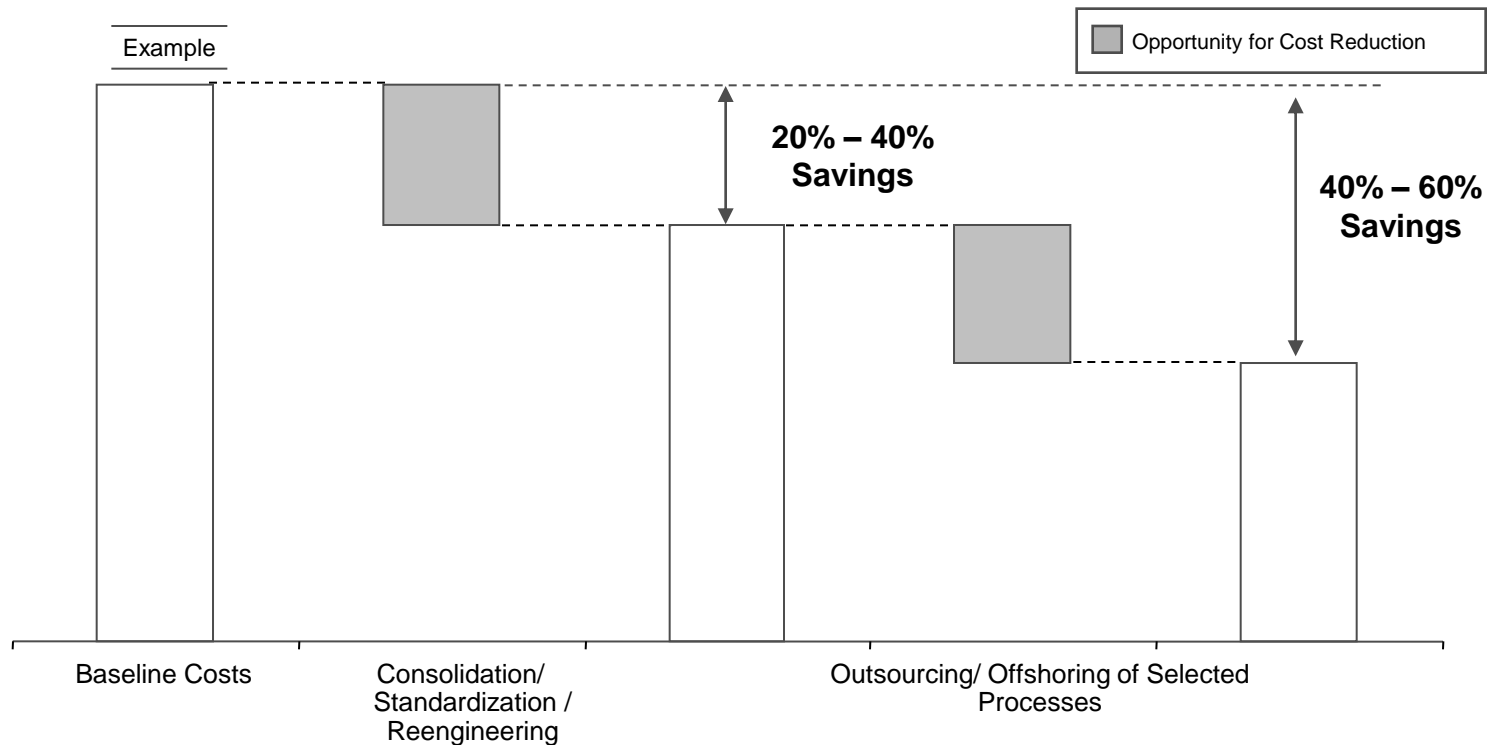
Offshoring – Benefits Case

Net Cost-Benefit Savings Realized



Why Offshoring

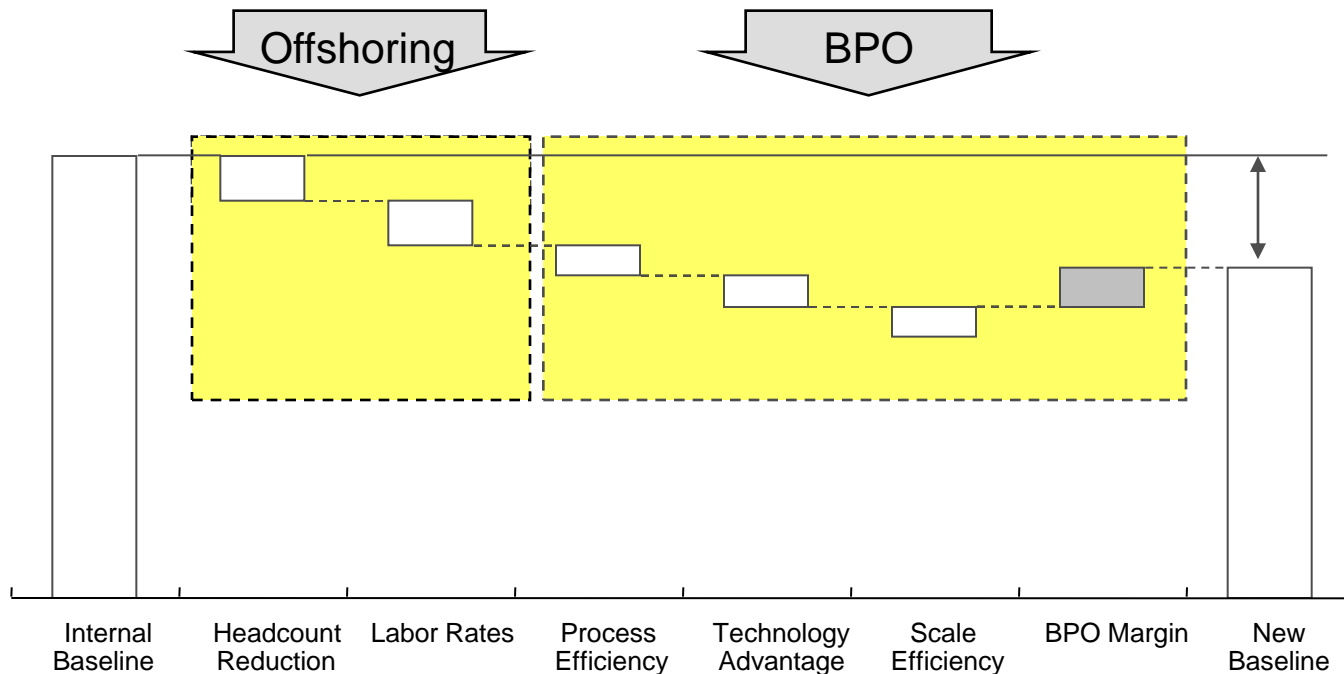
While a comprehensive HR Transformation can reduce costs by up to 60% often half of the savings is contributed through Offshoring and Outsourcing of selected HR processes



Why Offshoring

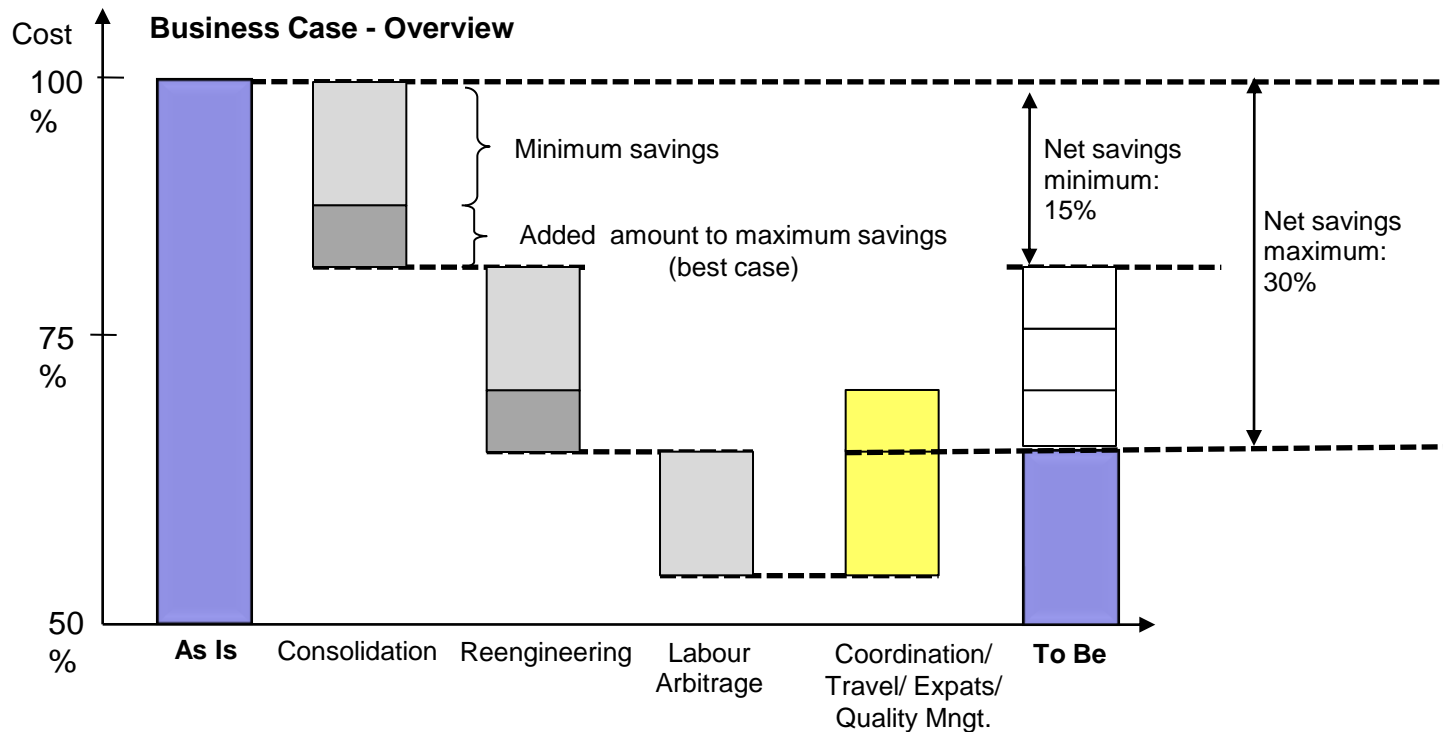
Dependent on the selected processes and their magnitude savings from Offshoring and BPO range between 20 – 40% with headcount reduction and labor rates often being the biggest contributors

Potential Savings Components through Shared Services and Outsourcing Activities



Why Offshoring

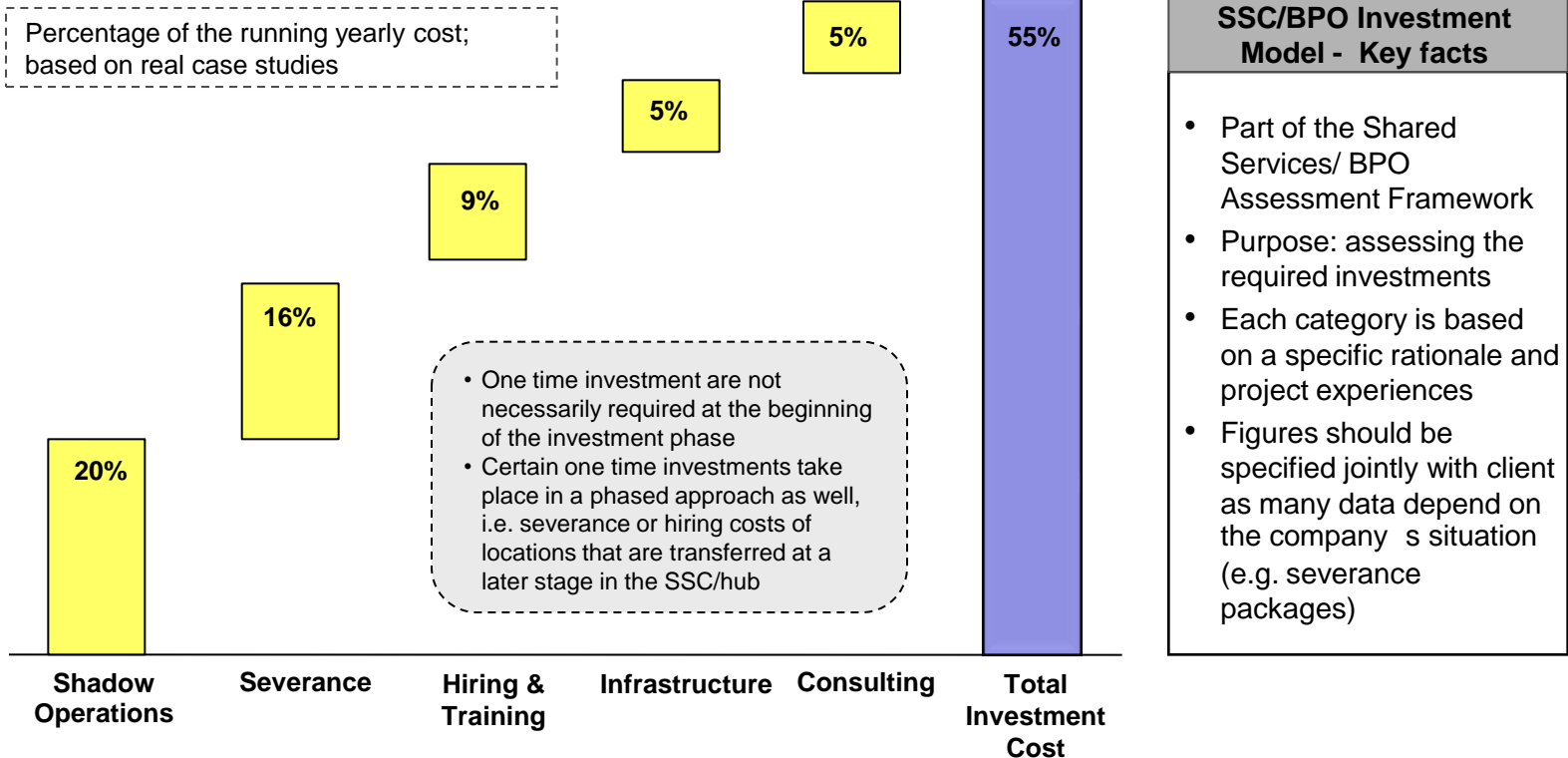
A reliable business case should consider best case and worst case options. Extra costs by moving to a SSC/BPO environment need to be accounted for



Why Offshoring

Determining the investments required is key to develop a proper business case and to determine the pay back period

Investments



Why Offshoring

Ideally, SSC/BPO initiatives reach a pay back time of less than 26 month – however, this depends on the migration strategy, scope, and locations

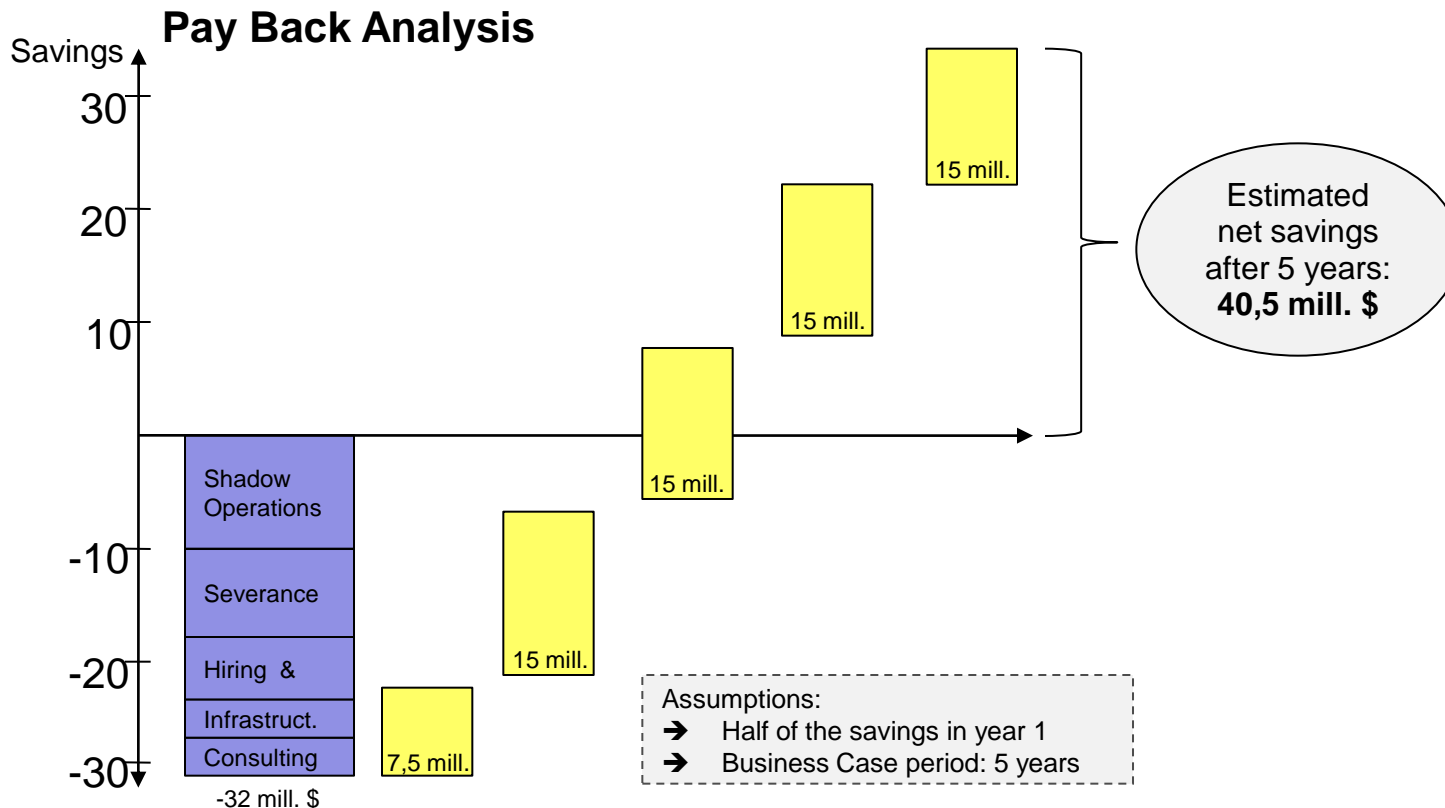


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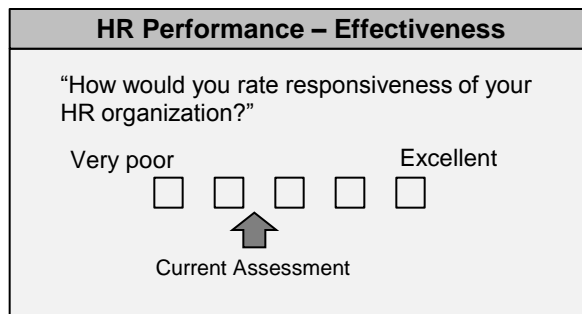
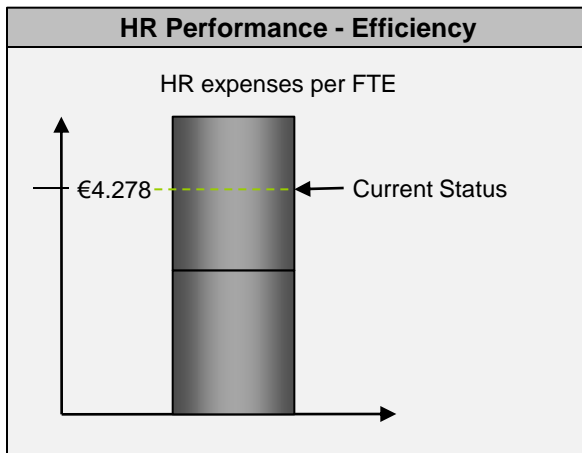
- China
- India
- Eastern Europe
- Up and coming locations

⇒ The way ahead - what role will HR offshoring play 5 years from now?

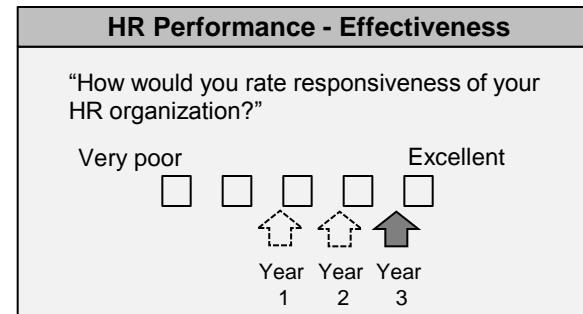
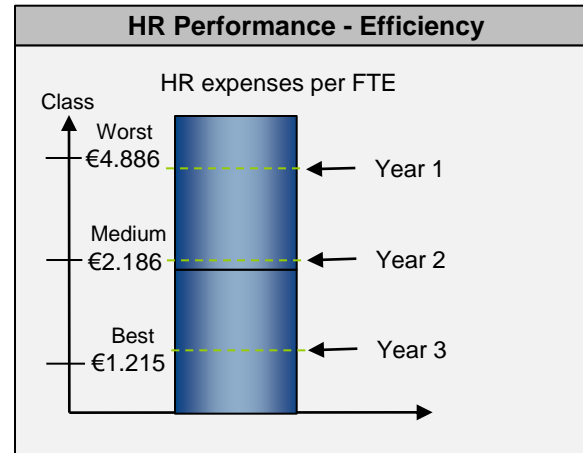
Managing HR Operations Offshore

Key is benchmarking of efficiency, quality and service orientation prior to Offshoring

**Before Offshore
(HR decentralized with Legal Entities)**



After Offshore



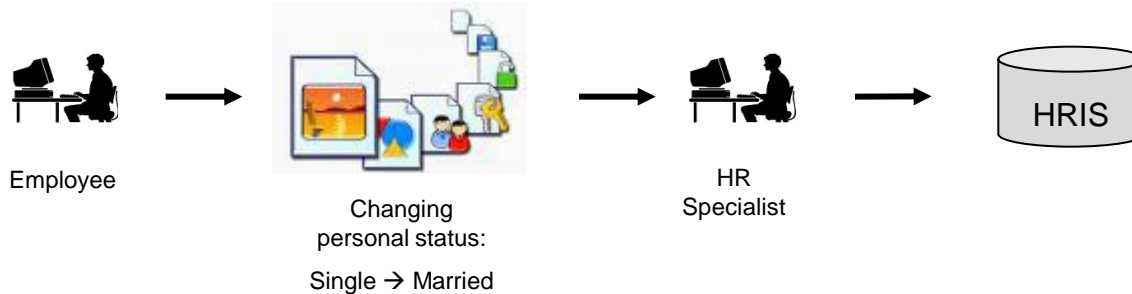
Comments

- Understanding performance prior to establishing Offshore demonstrates improvements of total cost of ownership and quality
- Also, knowing benchmark performance before setting up and while operating SSCs over multiple period helps identifying cost and quality targets for BPO considerations

Managing HR Operations Offshore

HR processes have changed from being manually and HR specialist input to being personally and online handled

Example: Changing personal data – before (till end of 90's)

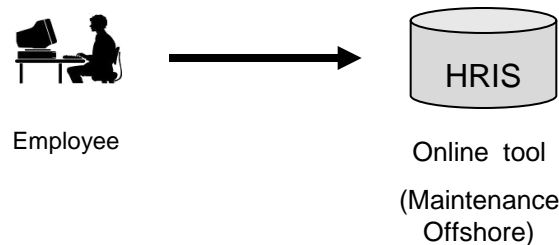


Comments

In order to guarantee the proper acceptance and function of the online tool it is necessary to:

- Ensure proper and sufficient training
- Provide guidance and assistance in particular for implementation period
- Encourage employees to regular usage of online tools

Example: Changing personal data – nowadays (from 2000)



Managing HR Operations Offshore

Monitoring of the HR services provided before establishment of an Offshore strategy would lead to an objective maintenance and further improvement of the services quality

Typical issue in HR SSC implementation	Example	Before	After	Continuous
	<ul style="list-style-type: none"> • HR FTE Ratio (FTE overall/HR FTE) • HR Expenses per FTE • HR Costs per HR Employee • HR Costs as Percent of Revenue • Training Costs as Percent of Revenue • Training Costs as Percent of Average Workforce compensation costs 			

Typical Perception → **“HR services were better before SSC”**

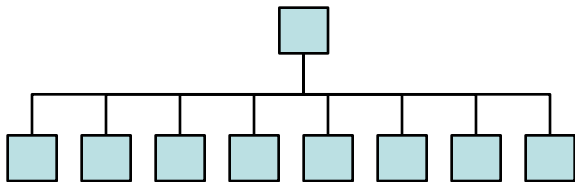
Ideal HR implementation approach	Example	Before	After	Continuous
	<ul style="list-style-type: none"> • HR FTE Ratio (FTE overall/HR FTE) • HR Expenses per FTE • HR Costs per HR Employee • HR Costs as Percent of Revenue • Training Costs as Percent of Revenue • Training Costs as Percent of Average Workforce compensation costs 			^^

↑ Objective comparison

→ Ensure benchmarking prior to HR Offshore implementation

Managing HR Operations Offshore

Span of Control = Important Indicator for Organizational Efficiency



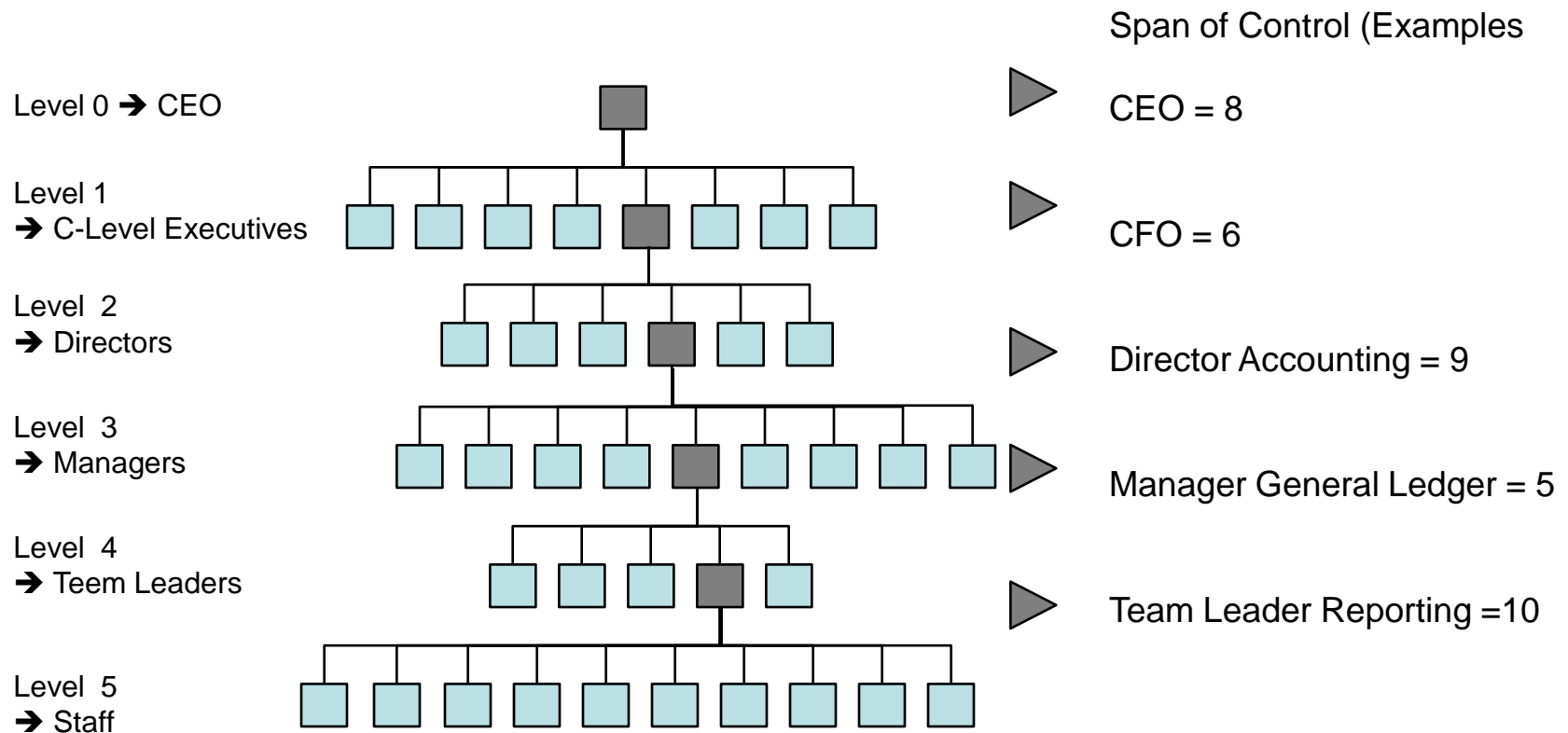
Span of Control = 8

→ One Manager/Supervisor manages 8 subordinates

- The „Span of Control“ or „Organizational Span“ is defined as the number of headcount or full-time equivalents that are led by a superior manager/supervisor
- The size of the Span of Control depends on the kind of task and function to be supervised
- Repetive and manual and lowest complexity tasks need low levels of supervision → one superior can supervise a high number of subordinates (assembly line work)
- The higher the level of complexity and knowledge involved and the higher the need to master technology → the superior should manage only few subordinates (e.g. development of non-standardized software)

Managing HR Operations Offshore

Usually, The higher the organizational level the narrower the Span of Control. However, extremely knowledge-driven activities require closer control even on lower organizational levels



Managing HR Operations Offshore

Typical Issue → Diamond Shape: too much personnel on supervisory levels without management responsibilities

Level 0 → CEO

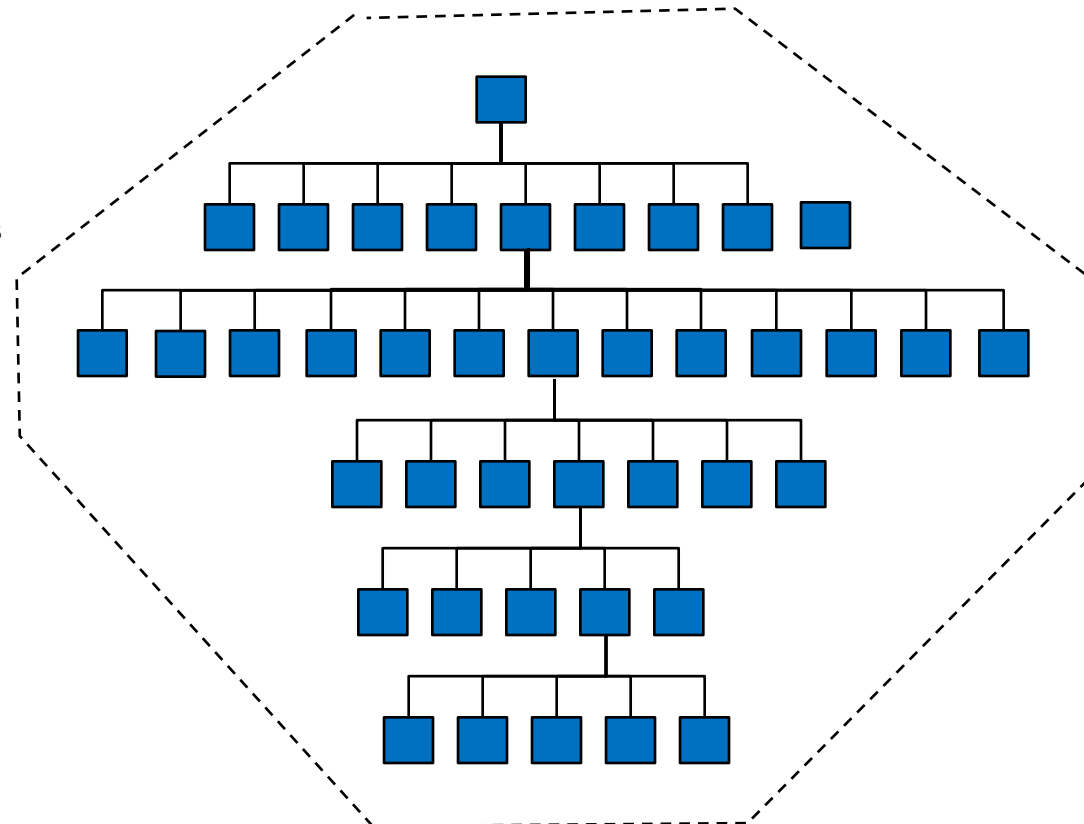
Level 1
→ C-Level Executives

Level 2
→ Directors

Level 3
→ Managers

Level 4
→ Team Leaders

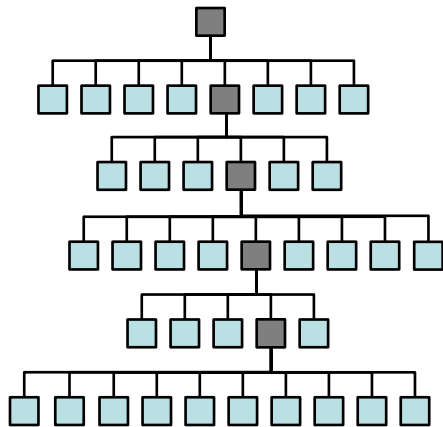
Level 5
→ Staff



Managing HR Operations Offshore

Spans of Control need to be managed consciously

→ otherwise they become a real threat to the corporation



- Too many subordinates on high organizational levels
- → overflow with managerial tasks, no room for strategic decision making
- Too few subordinates on middle management levels → too much high paid and high qualified resources for task to be taken care of
- Too many organizational layers → slow decision-making, low levels of flexibility and communication flow

Consequences:

- Many large-scale corporations suffer these days under non-efficient span of control issues:
- Siemens: two last CEO called the company „re-organization resistant“ due to middle-management resistance
- Deutsche Telekom: CEO Sommer gave up due to change resistance of the organization
- With Shared Services and BPO the managerial tasks can be outsourced = middle managers become captive „experts“ in charge of managing the relationship to the internal/external vendor
- Non value adding managers can be identified easier and re-assigned or laid off

Managing HR Operations Offshore

Benchmarks provide guidance in order to design an effective and efficient organization

Benchmarks: Manufacturing/Engineering

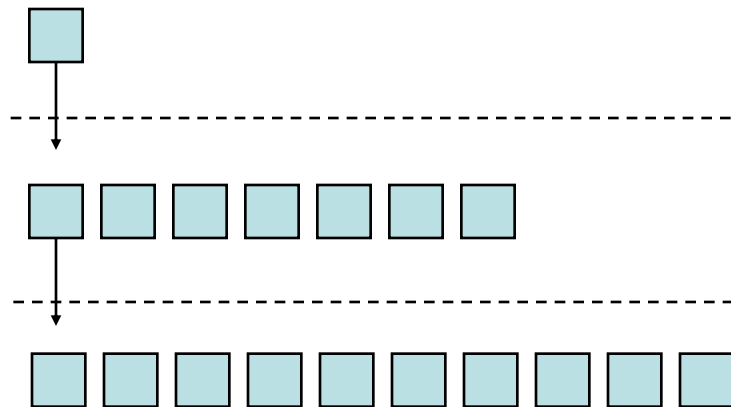
- Manufacturing task, low level of complexity
 - Director = 10 – 14 Team Leader
 - Team Leader = 18 – 24 Staff
(Example: Manual Assembly Line work)
- Manufacturing task, medium level of complexity
 - Director 6 – 8 Team Leader
 - Team Leader = 10 – 15 Staff
(Example: Painting Shop)
- Engineering task, high level of complexity
 - Director: 4 – 6 Team Leader
 - Team Leader: 4 – 8 Staff
(Example: Testing)

Benchmarks: Administration

- Administrative task, low level of complexity
 - Director = 10 – 14 Team Leader
 - Team Leader = 14 – 18 Staff
(Example: Order Entry Desks)
- Administrative task, medium level of complexity
 - Director = 6 – 8 Team Leader
 - Team Leader = 8 – 12 Staff
 - (Example: Accounting)
- Administrative task, high level of complexity
 - Director = 4 – 6 Team Leader
 - Team Leader = 4 – 6 Staff
(Example: Planning & Forecasting)

Managing HR Operations Offshore

**In order to run an efficient Shared Service operation
a size of at least 78 FTEs is advised**



Span of Control Benchmarks

1 SSC Manager/Head of major function
Span of Control 6-8

= 7 Department Managers/ Team Leaders,
Span of Control 8 – 12 (dependent on level of
transactional tasks)

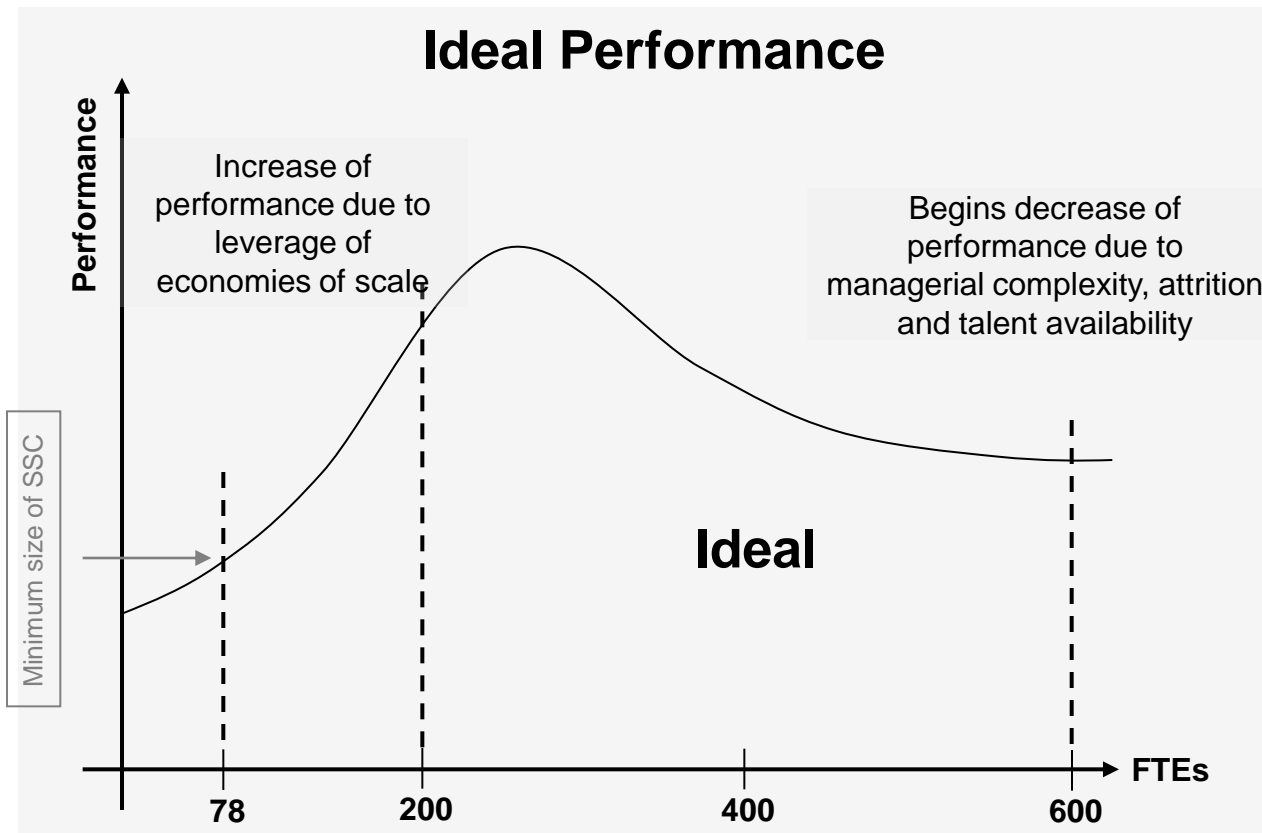
= 70 Staff members



Ideal minimum size ~ 78 employees

Managing HR Operations Offshore

The right size of a captive services center is determined by the company's requirements vs a quality/quantity performance equilibrium



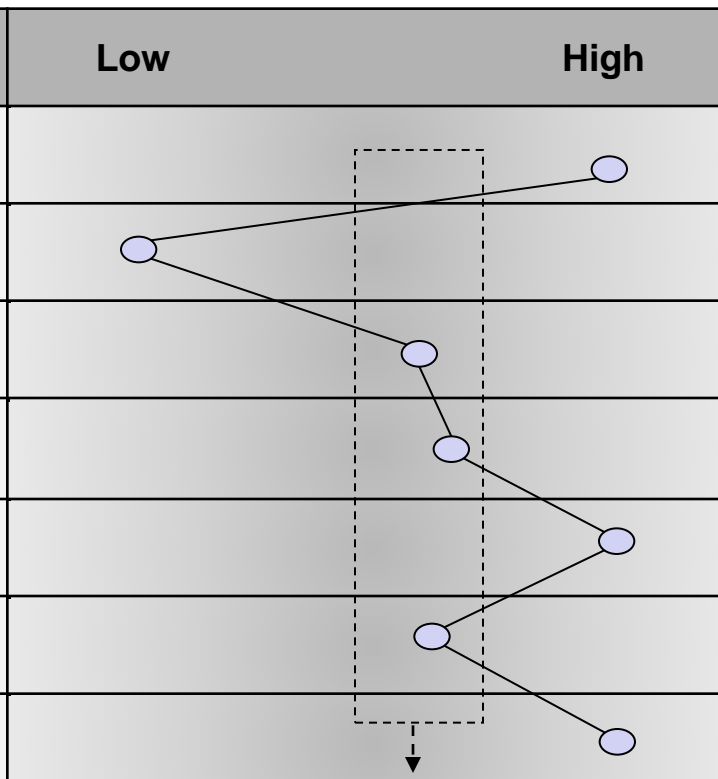
Comments
<ul style="list-style-type: none"> • An acceptable performance of a captive centers starts typically after 80 FTEs. • After 600 FTEs technical and managerial problems start. • Governance and Talent Pool availability, attrition and teams coordination are among the main difficulties when handling a services center

Managing HR Operations Offshore

Qualitative decision factors for shoring options in location selection are also important and are driven by company-specific requirements and preferences

Illustrative

Decision Factors	Low	High	
Cultural Empathy			
Languages Affinity			
Geographical Proximity			
Time Zone Immediacy			
Regular Staff Traveling			
Project Urgency			
Management Retention			
Basic Conclusion (simplified)	Offshore	Nearshore	Onshore

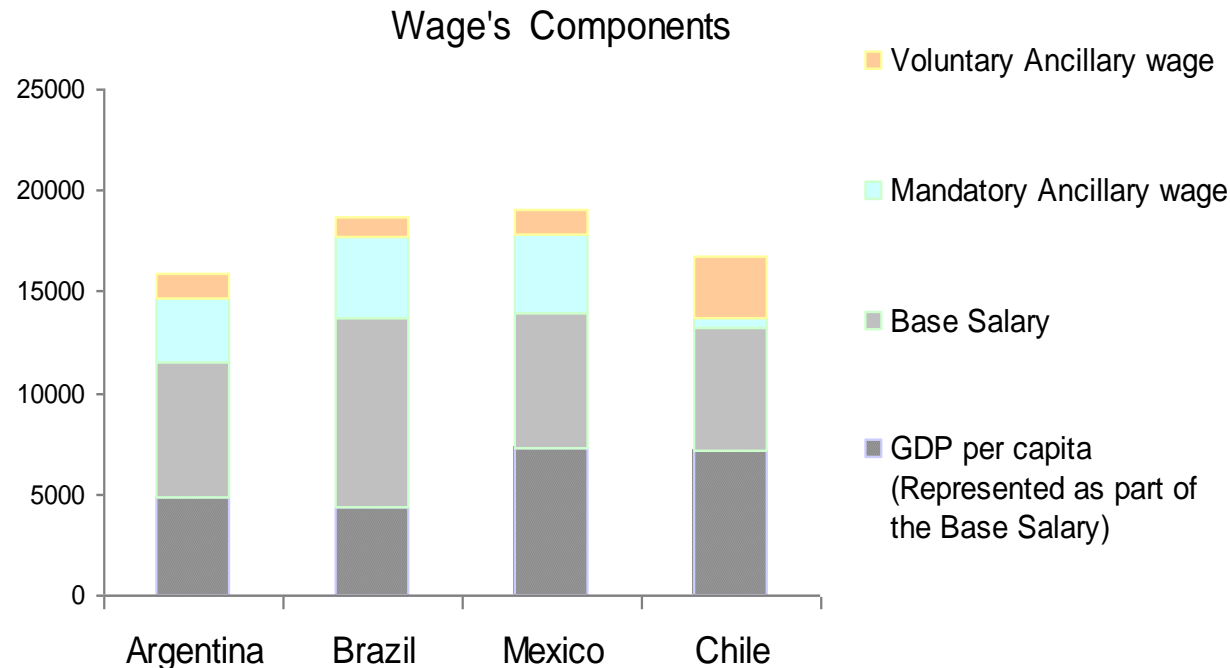


Comments
<ul style="list-style-type: none"> • These assessments deliver immediate input for the weighting of the respective criteria • Whereas talent pool and labour cost are usually consensual factors other factors such as language and cultural affinity need to be determined by company specific preferences • This tool allows to include non monetary factors or other figures

Managing HR Operations Offshore

Identifying risks and hidden costs: total wage component for some locations in Latin America

Offshoring Institute

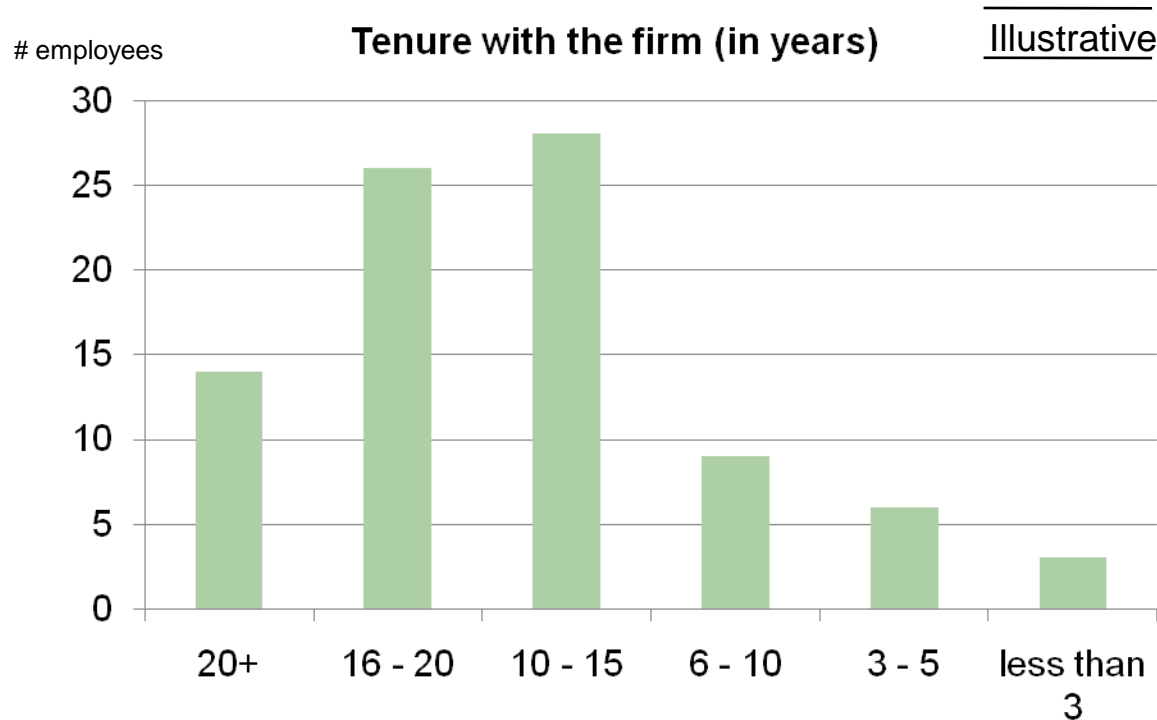


Comments

- Each country has different mandatory ancillary wage costs
- The non mandatory ancillary benefits for the workers go accordingly to cultural, regional or economical features of the location
- In some countries attrition is directed linked to ancillary wages

Managing HR Operations Offshore

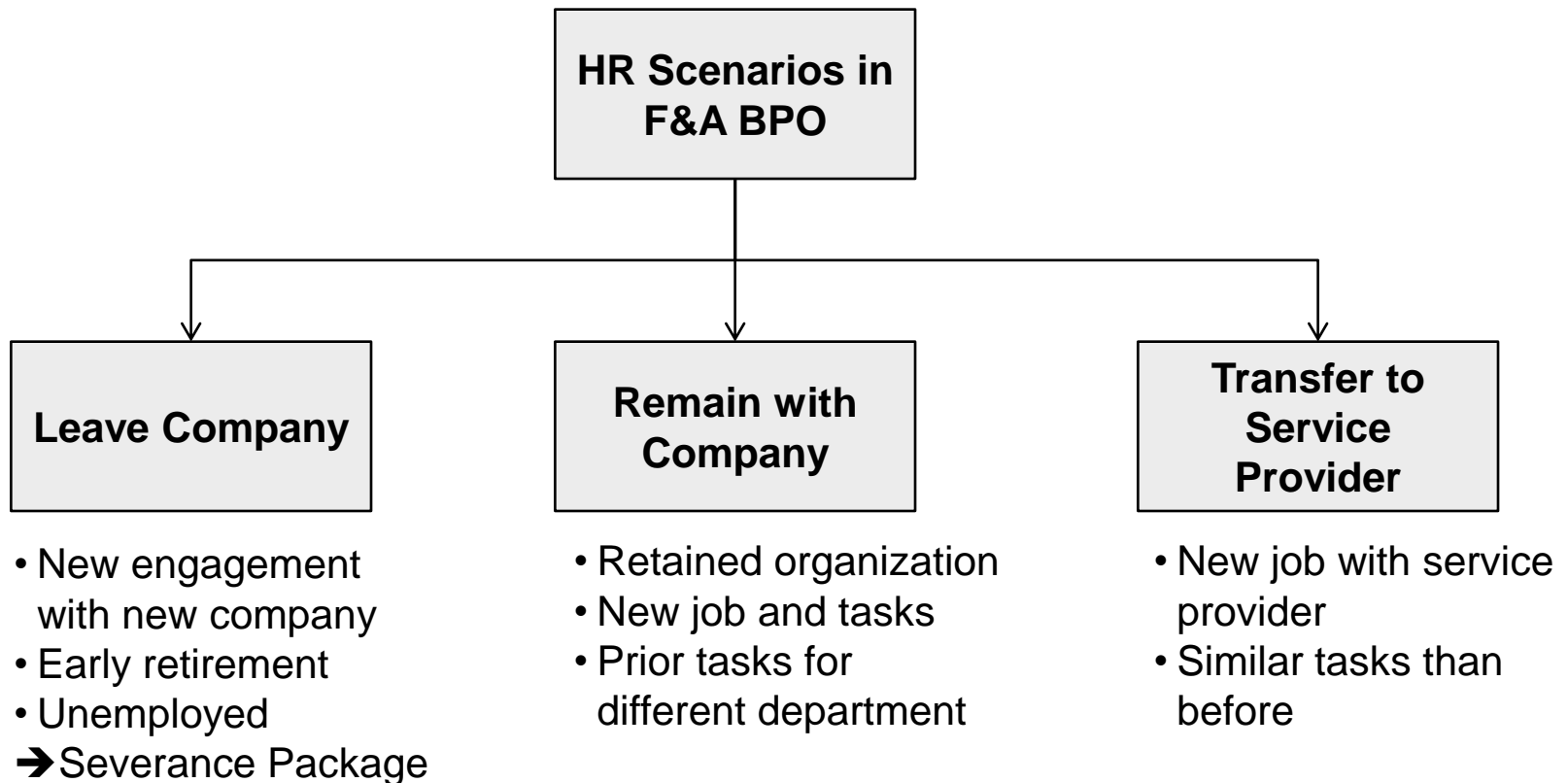
Transition challenge: typical tenure profiles show often a longstanding HR workforce



- Many HR departments have a longstanding workforce due to significant transactional and manual workload in the past, i.e. Payroll
- Employees in Continental Europe tend to be more loyal to the firm than in Anglo-America
- High levels of knowledge and experience
- However, often high severance payments have to be considered
- → High levels of 'change resistance'

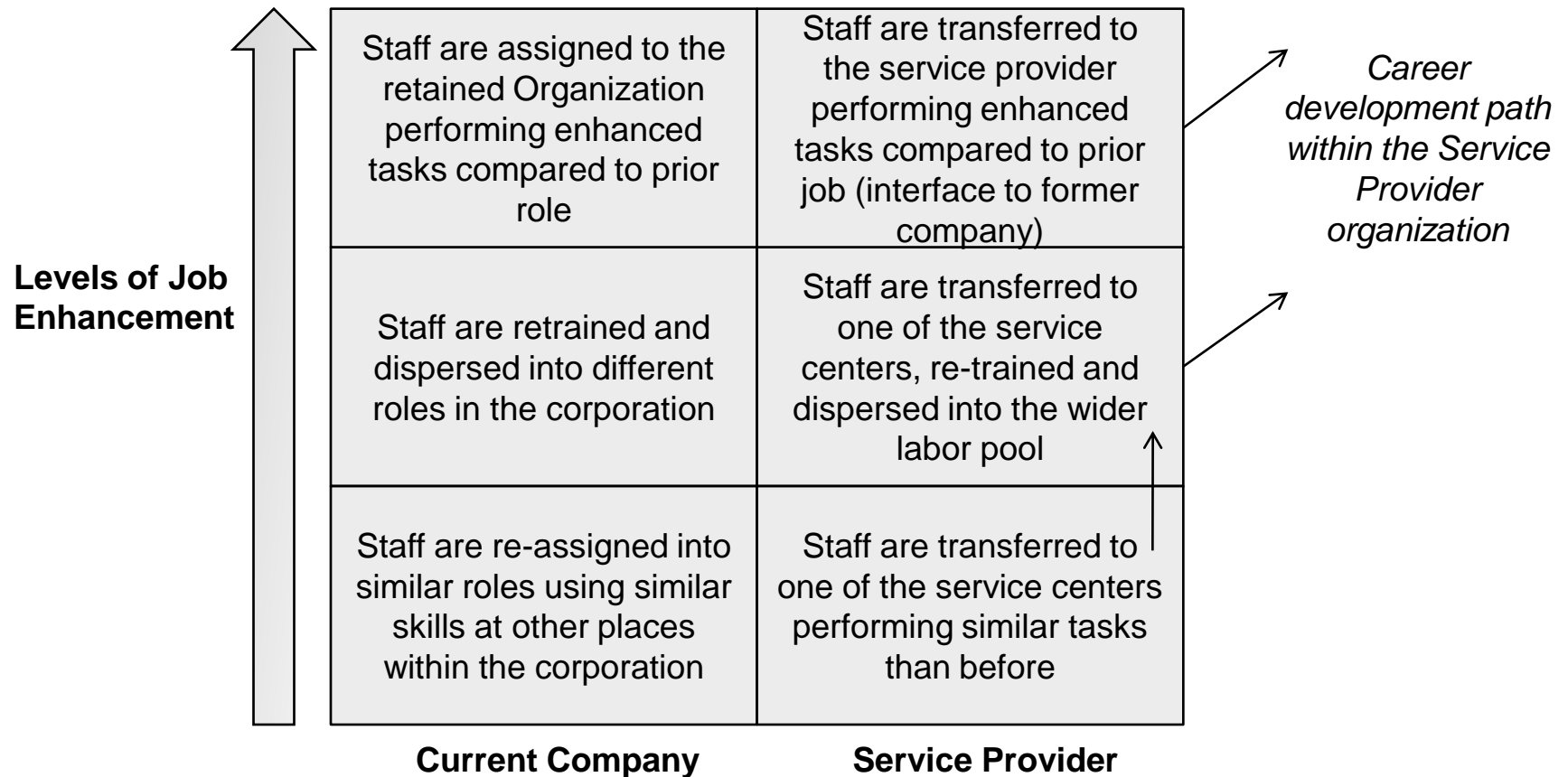
Managing HR Operations Offshore

HR Transformation leads to various options for the employees— however, most of them are concerned about loosing the current job only



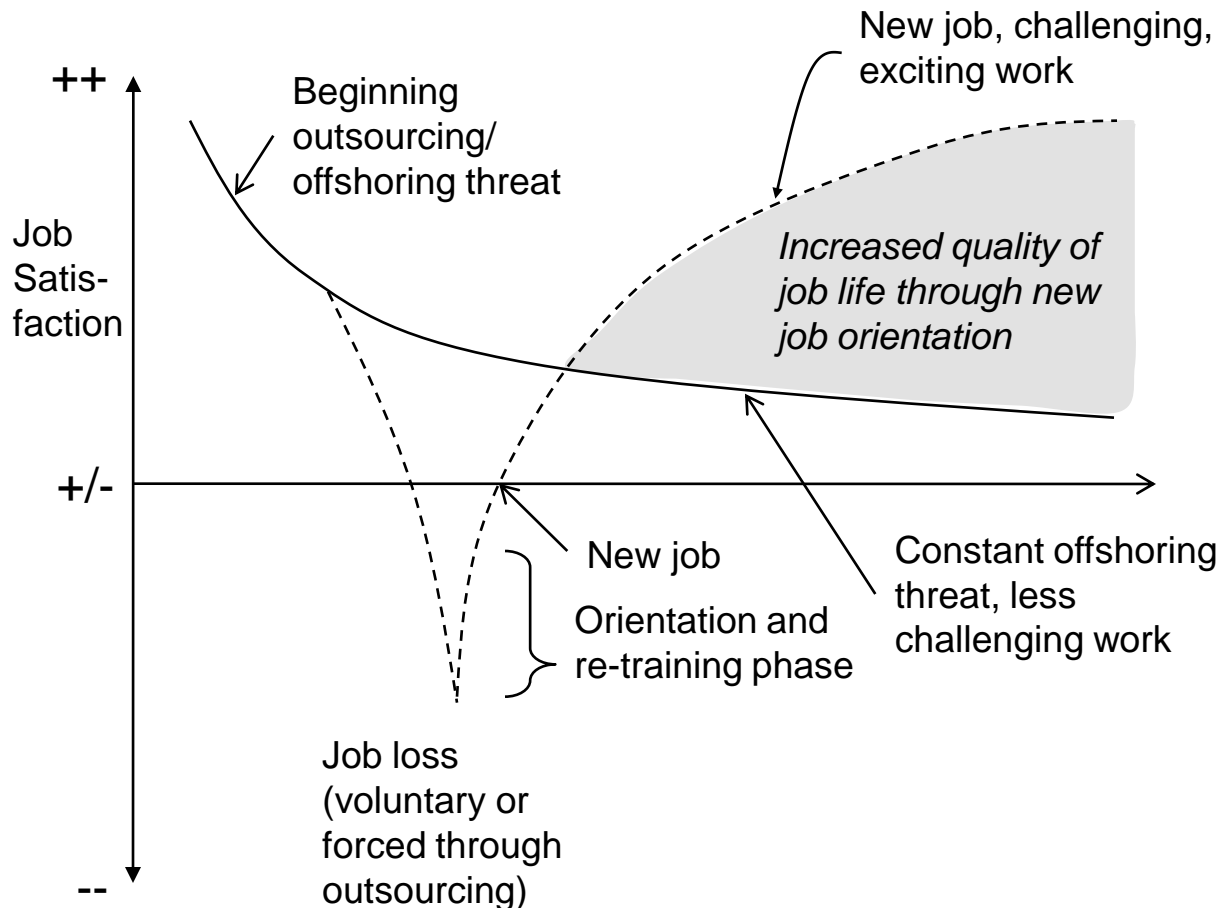
Managing HR Operations Offshore

For employees staying with the firm and/or service providers various options for job enhancement are possible



Managing HR Operations Offshore

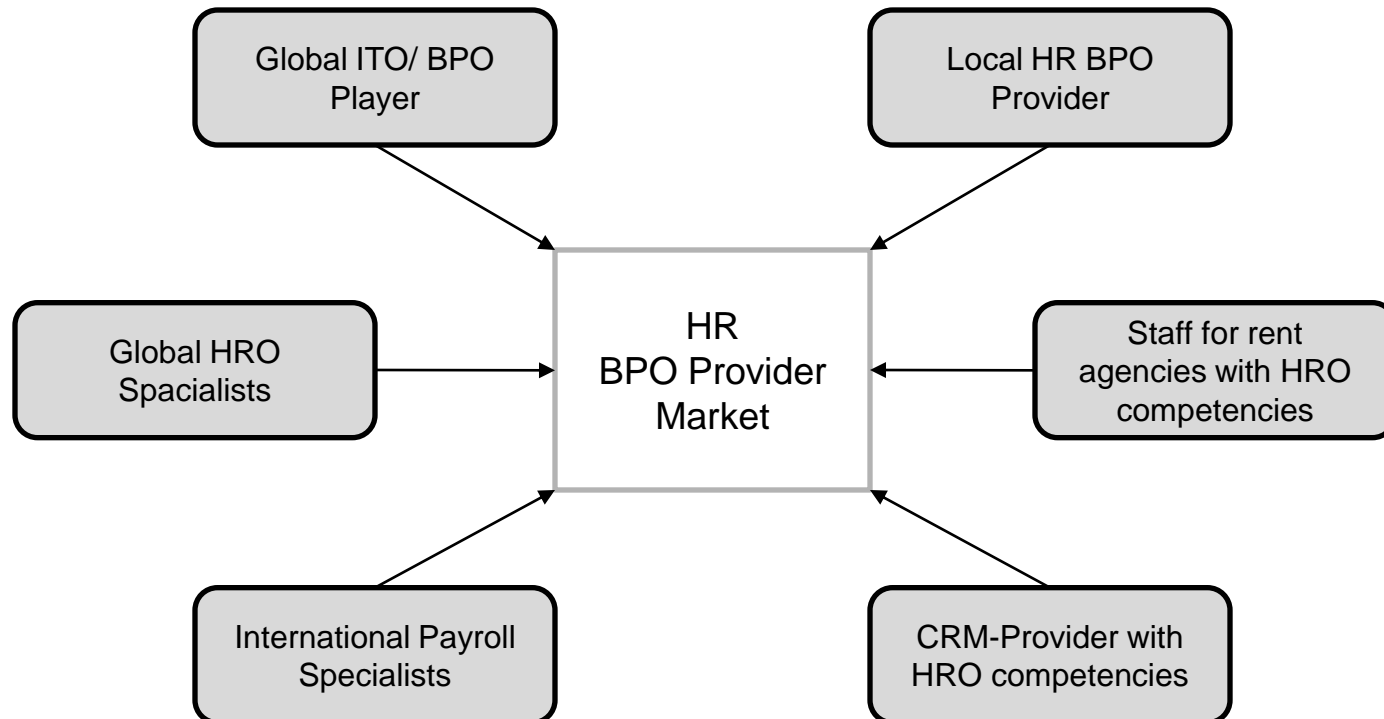
Constant job threats are a major obstacle to Finance Transformations and hinder work satisfaction



- New organizational and psychological research suggests a higher quality of work life if the work is challenging and in line with the individual personal characteristics (see Bolles, Richard N., 2007)
- Many Finance Transformations leave employees in constant fear about their jobs, in particular since SSC or BPO are often major parts of the solution
- A proper and open communication strategy enables employees to start a new career orientation early in the process
- In the mid-term a clear cut creates higher satisfaction than living with constant job loss fear
- Therefore, early communication and a swift execution of the Finance Transformation are key to a successful implementation

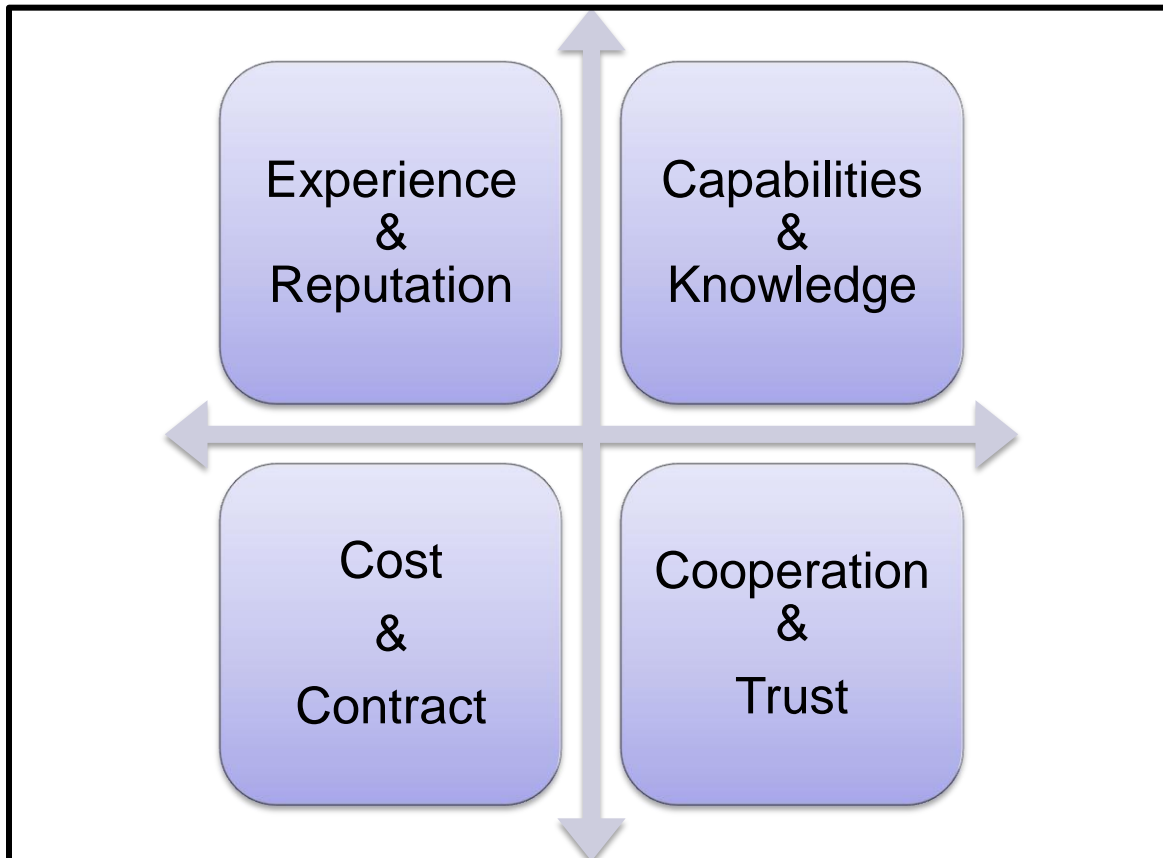
Managing HR Operations Offshore

BPO: Market overview



Managing HR Operations Offshore

Typical assessment criteria for HRO provider



Managing HR Operations Offshore

Example

Selection Process - Criteria Weight

Sub-Criteria

Criteria	Criteria Weight
Experience and Reputation	25 %
Capabilities and Knowledge	10 %
Cost and Contract	35 %
Cooperation and Trust	30 %
Sum	100 %

Managing HR Operations Offshore

Example

Sub-Criteria: Experience & Reputation

Sub-Criteria Experience & Reputation	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
BPO Knowledge and Experience	20 %	5	4,5	4,5	4
Outsourcing and BPO Reputation	20 %	5	4,5	4,5	3,5
References (comparable)	10 %	3,5	4,5	3	3,5
Quality and Continuous Improvement Programs	20 %	4	4,5	4	3,5
Service-Portfolio (IT, BPO)	10 %	4,5	4	3,5	4
Back up and Contingency Capabilities	10 %	4	4	4	4
Financial Stability	10 %	4,5	4,5	4	4
24/7 Service Capabilities	0 %	4	4	3,5	4
Sum	100 %	34,5	34,5	31	30,5

Managing HR Operations Offshore

Example

Sub-Criteria: Capability and Knowledge

Sub-Criteria Capability and Knowledge	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
IT and SAP Capabilities	30 %	4	4	4	4
Consulting Capabilities	10 %	5	3,5	4,5	3,5
Industry Expertise	10 %	3,5	4	2,5	3,5
Process Expertise	30 %	4,5	4,5	4	4
Language Capabilities	20 %	4,5	5	4	3,5
Sum	100 %	21,5	21	19	18,5

Managing HR Operations Offshore

Example

Sub-Criteria: Cost and Contract

Sub-Criteria Cost and Contract	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
Price vs. Service	60 %	3	3,5	4,5	2,5
Flexible Pricing (e.g. Transactional-based Pricing)	0 %	3	3	3	3
Contract and SLA Capabilities	0 %	4	3,5	3,5	3,5
International Footprint and Low Cost Delivery Capabilities	40 %	5	4,5	4	4,5
Sum	100 %	15	14,5	15	13,5

Managing HR Operations Offshore

Example

Sub-Criteria: Cooperation and Trust

Sub-Criteria Cooperation and Trust	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
Existing Relationships (e.g. IT)	15 %	3	2	2	1
Key Personnel	15 %	3,5	2,5	2,5	2
Cultural Fit	20 %	3,5	4	3,5	2,5
Organization of Cooperation	10 %	3,5	3,5	3	3
Reliability and Trust	40 %	4	4	3,5	3,5
Sum	100 %	17,5	16	14,5	12

Managing HR Operations Offshore

Example

Results

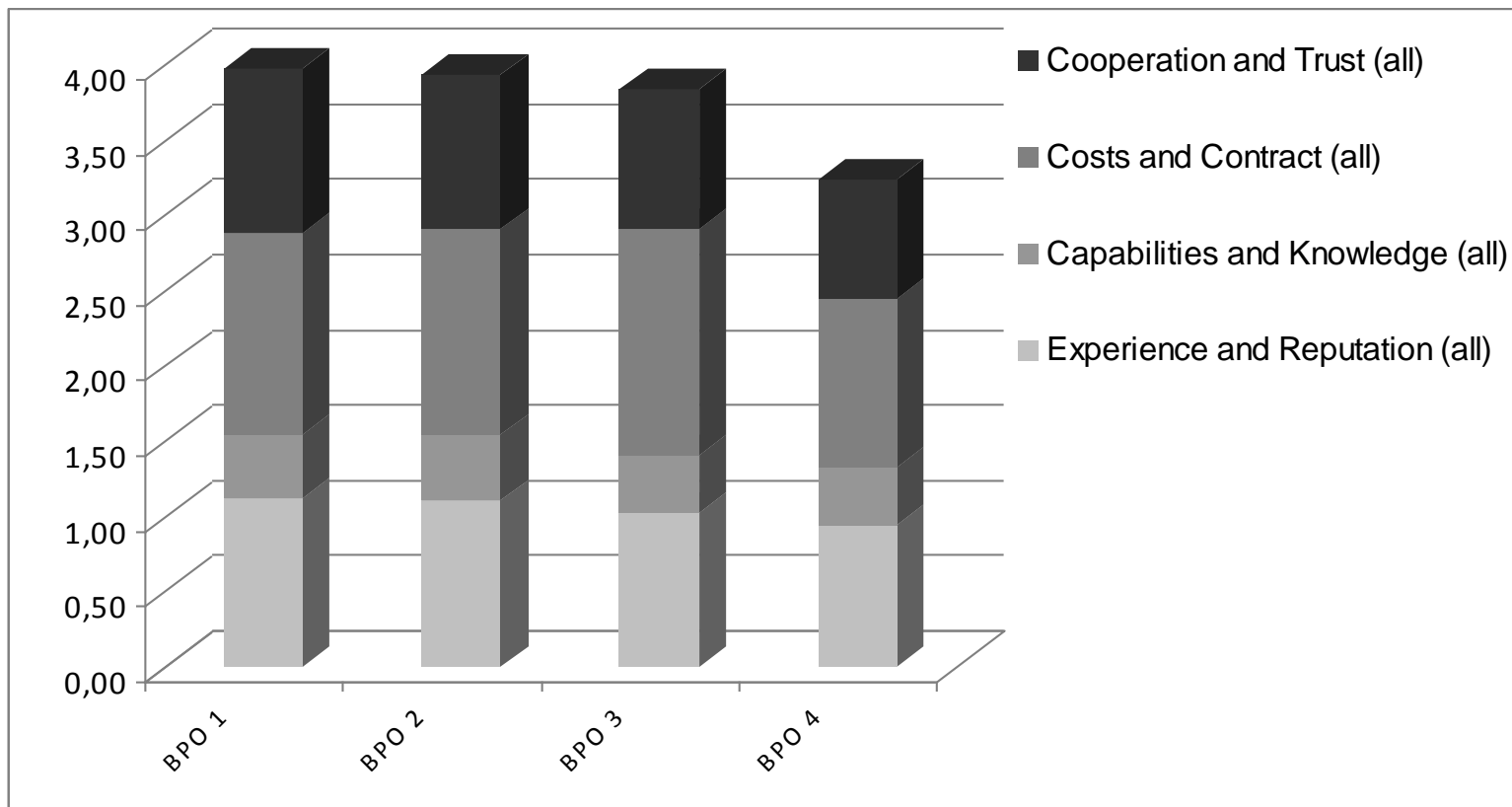


Table of Contents

⇒ Why offshoring?

- How to decide if this is the right option of you
- Evaluating return on investment

⇒ Managing and controlling of your HR operations offshore

- Maintaining the standard of customer service required
- How to retain effective control of your offshored operations
- Assessing cultural, loyalty and turnover differences
- Identifying and neutralizing the key challenges

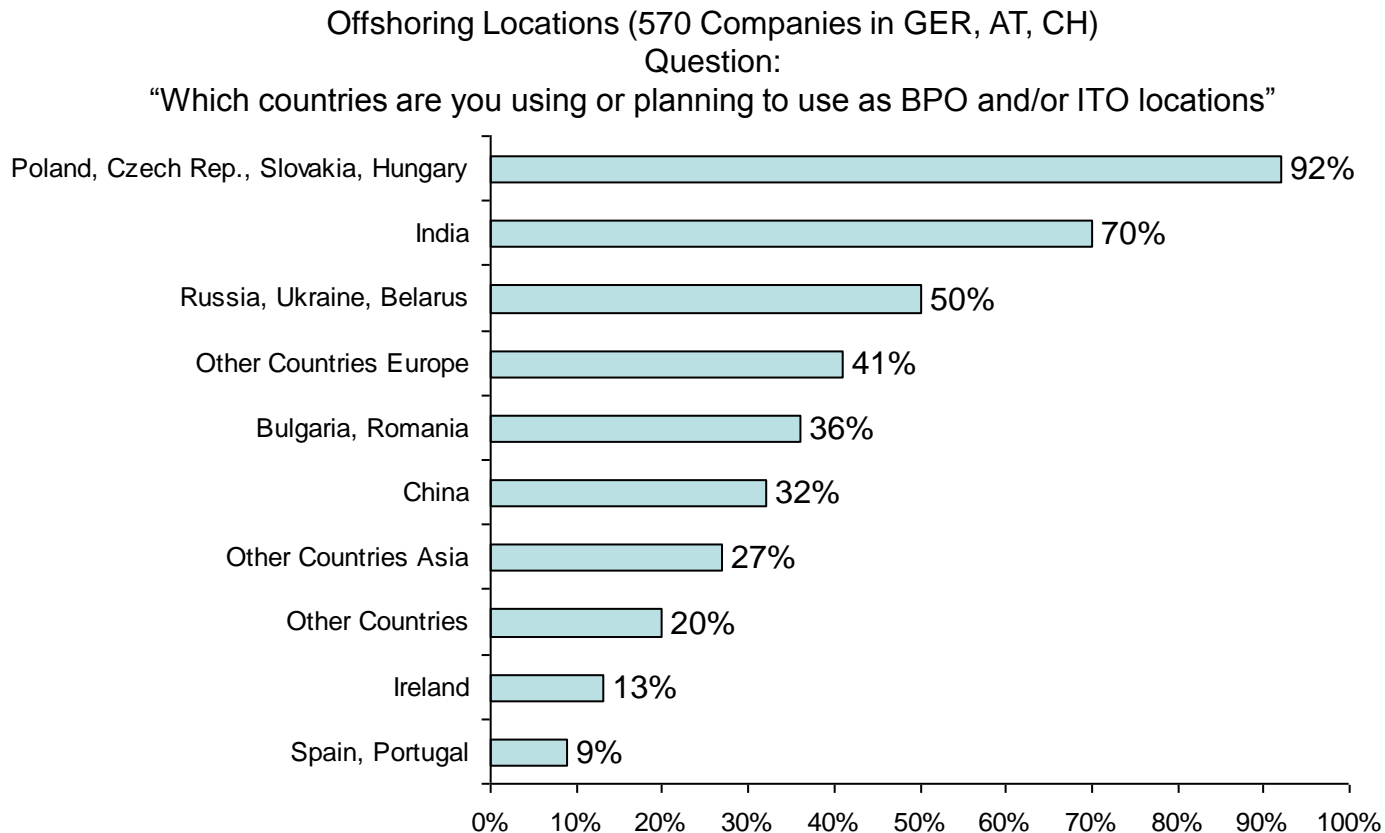
⇒ Where to go? Considering the current hotspots

- China
- India
- Eastern Europe
- Up and coming locations

⇒ The way ahead - what role will HR offshoring play 5 years from now?

Where to go

Preferred BPO Locations



Source: Deutsche Bank Research, June 14, 2005, Nr. 52

Deutsche Bank Research

- The advanced Offshoring nations in Eastern Europe are leading even against India (for ITO India is clearly in the lead)
- Geographical and cultural proximity are major reasons for the East European preference
- In particular German companies tend to be very sensitive regarding the relocation of critical processes to remote locations such as India or China

Where to go

Salary gaps in low cost locations between managerial and clerk level are usually much higher than in high cost ones due to talent shortage of managerial staff

Salaries comparison between the different level for an HR unit

Level	In % of employees	Berlin	Bucharest	Bangalore	Shanghai
Director	0,7 %	€63.128	€31.895	€55.831	€33.218
HR Manager	1,3 %	€58.529	€27.157	€25.682	€21.019
HR Specialist	9 %	€30.444	€9.801	€6.878	€13.189
HR Clerk	89 %	€27.630	€6.165	€3.282	€9.868

Annotations in the table: Yellow circles with arrows pointing to salary differences between Berlin and other locations: 2.3x (Berlin vs Bucharest), 5.2x (Berlin vs Bangalore), 17x (Berlin vs Shanghai), and 3.3x (Berlin vs Shanghai).

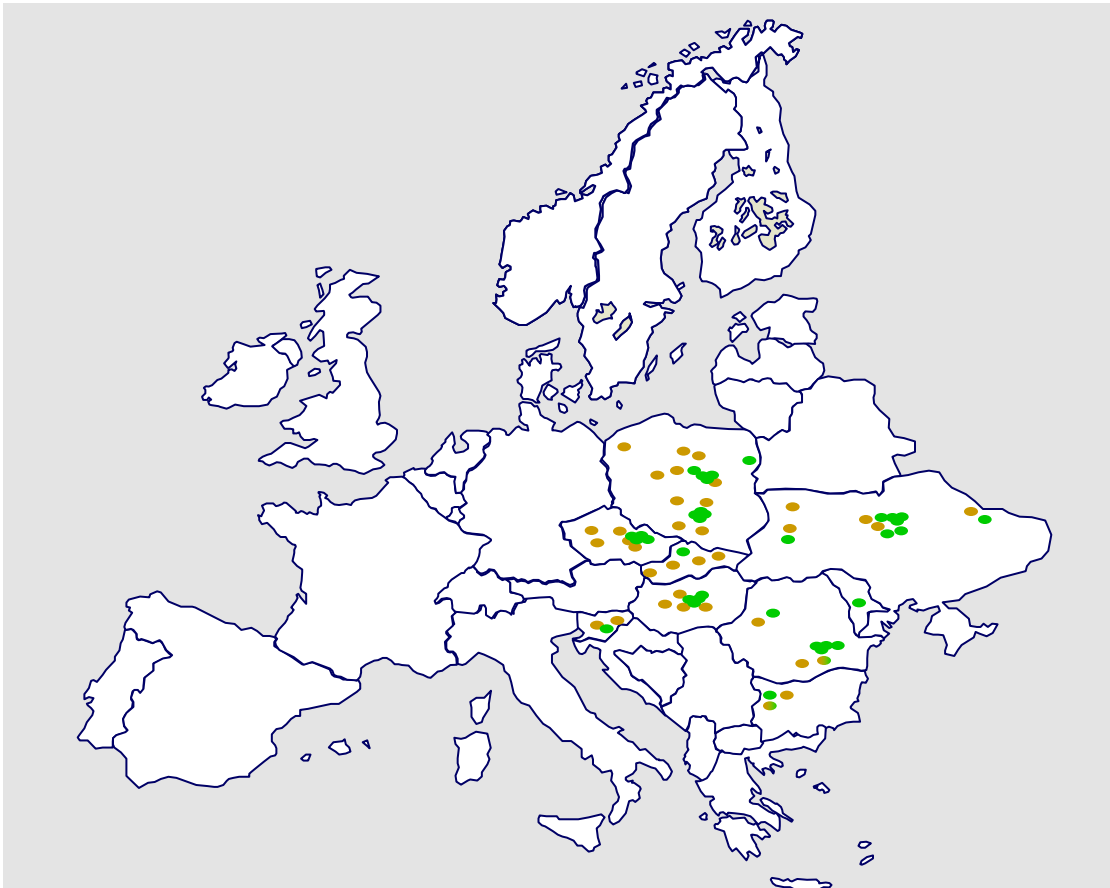
Comments

- Directors in low cost locations enjoy salaries similar to those in high cost ones
- These differences can be of the order of tents of times
- These high differences usually lead to high attrition levels

Source: Offshoring Institute

Where to go

Despite text book recommendations of greenfield sites, in practice brownfield solutions are the preferred way in setting up nearshore centers



Brownfields / Greenfields - Key facts

- From the companies' point of view, a brownfield locations is where the latter has already ongoing operations (production mainly).
- A high number of companies shore their operations to brownfields.
- Nevertheless the benefits of brownfields are quickly exhausted and greenfield operations need to be taken into consideration.

Where to go

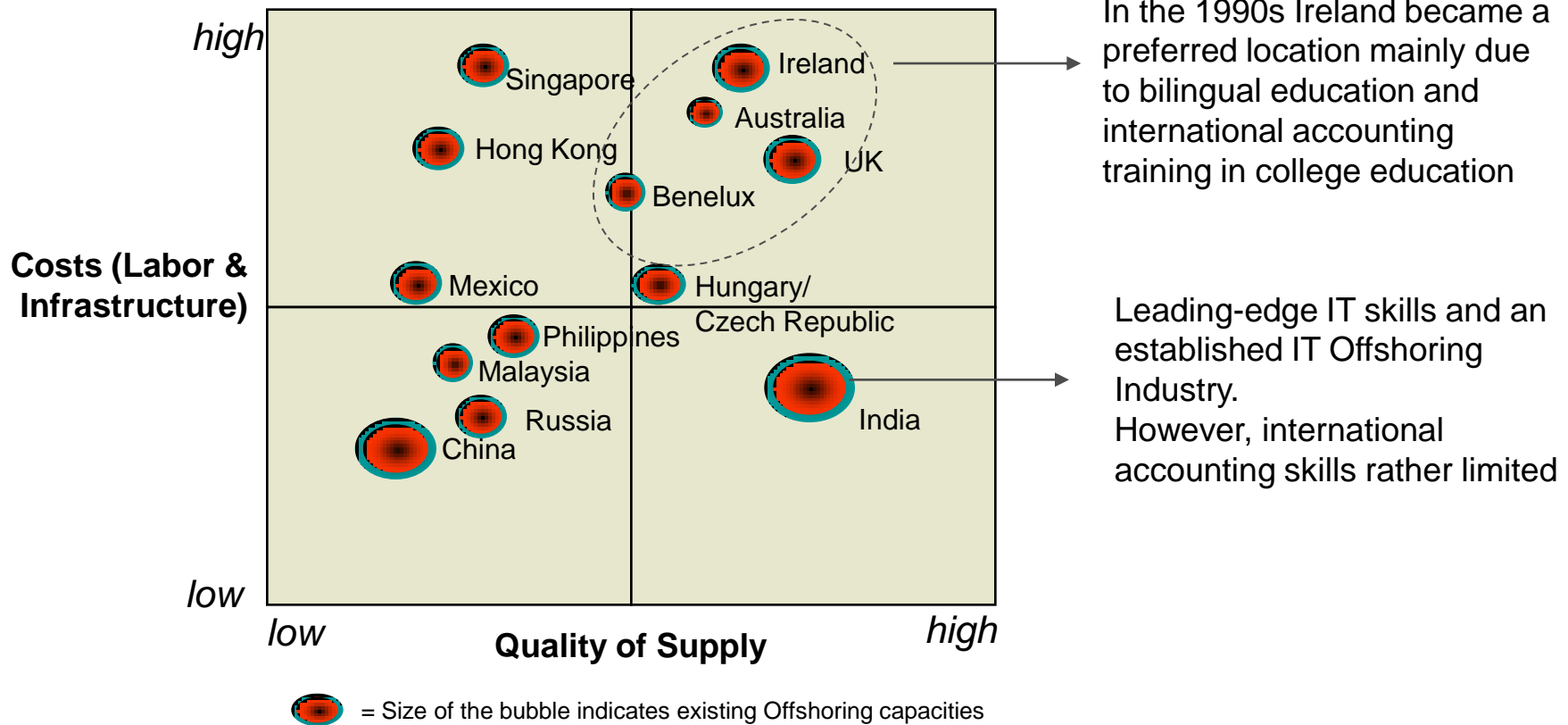
Offshoring Destinations



- Canada, Ireland and India were the pioneers in the Offshoring business
- Eastern Europe, Latin America, China, and the Philippines are current hotspots
- Africa is the newest Offshoring player

Where to go

Offshore Capacity for IT related Finance & Accounting Activities

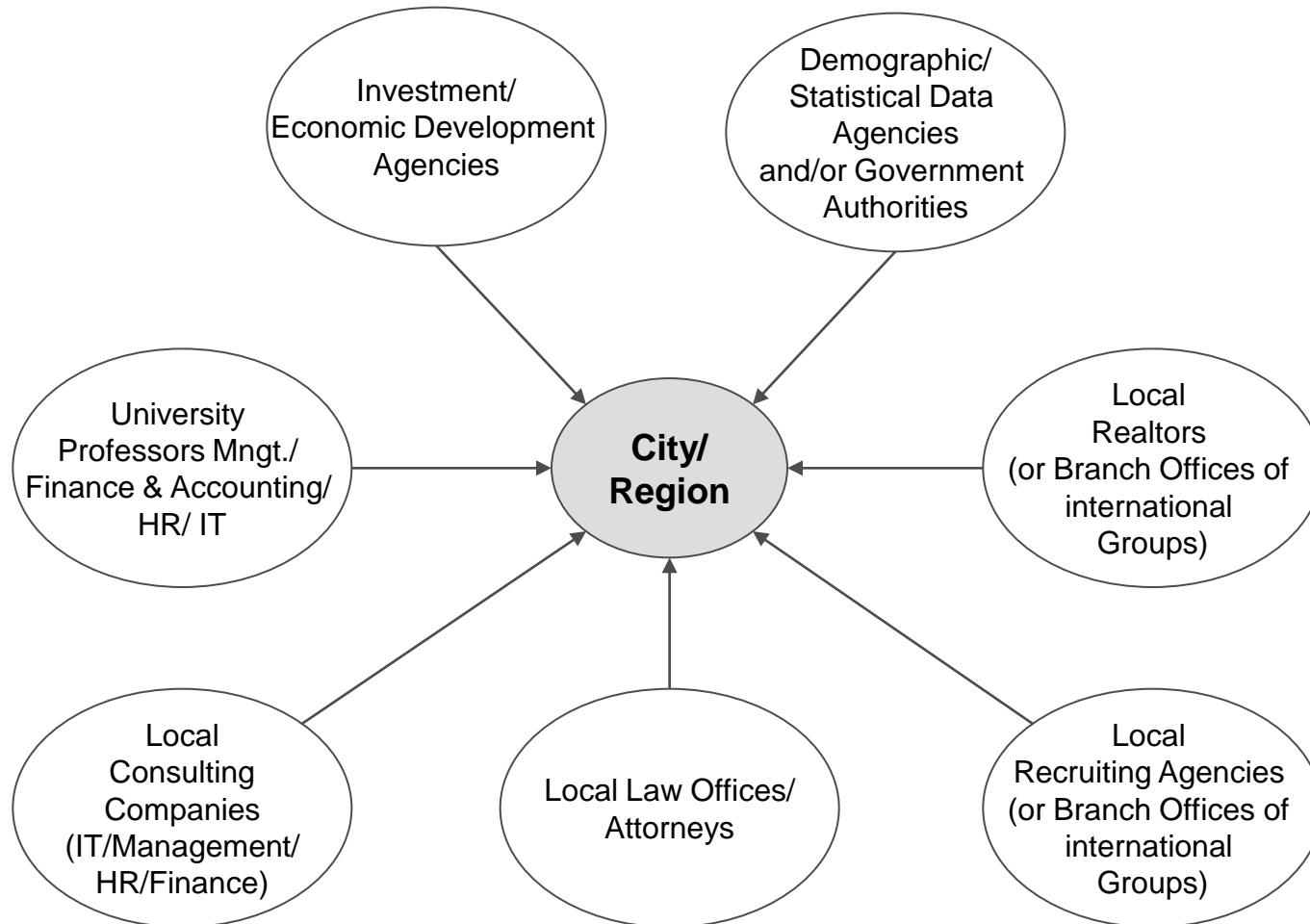


Where to go

McK Global Inst.	Gartner	A.T. Kearney	EDS	neoIT (ITO)	neoIT (BPO)	Summary
India	India	India	Ireland	India	India	India
China	Ireland	China	Canada	Canada	Philippines	China
Malaysia	N. Ireland	Malaysia	India	China	Poland	Malaysia
Philippines	Philippines	Philippines	South Africa	Poland	Ireland	Philippines
Brazil	S. Africa	Singapore	Singapore	Ireland	Canada	Ireland
Mexico	Russia	Thailand	Israel	Cz. Republic	Mexico	Cz. Republic
Hungary	Cz. Republic	Cz. Republic	Taiwan	Russia	Cz. Republic	South Africa
Cz. Republic	Israel	Chile	Hungary	Malaysia	Malaysia	Poland
Poland	China	Canada	Malaysia	Mexico	China	Brazil
USA	Hungary	Brazil	Philippines	Hungary	Hungary	Hungary
Canada		USA	Brazil	Philippines	Romania	Mexico
Russia		Egypt	Russia	Romania	Brazil	Russia
UK		Indonesia	Poland	Brazil	South Africa	Romania
Germany		Jordan	China	South Africa	Russia	Singapore

Where to go








Offshoring Institute Network Model








Where to go

Instant comparison of up to four cities according to 80 different criteria is possible

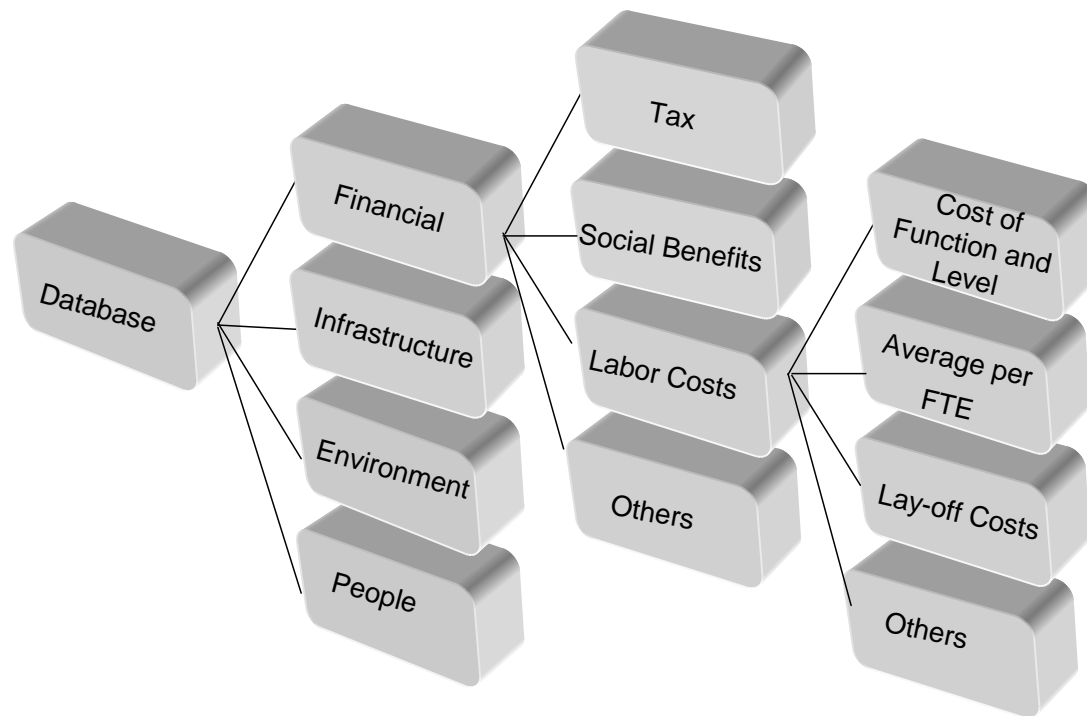
Example

Wage Costs (p.a.)	Beijing 	Mexico City 	Sofia 
Cost of Executives/Directors	14.448,95 € 	77.212,16 € 	27.610,19 €
IT/Database/Network Administrator	3.920,07 €	15.999,32 € 	15.553,74 €
Assistant/Software Engineer	5.086,79 €	15.046,94 € 	15.952,55 €
IT/Project Manager	9.353,21 €	42.664,84 €	24.542,39 €
Procurement/Shipping Assistant	3.726,14 €	5.739,67 €	12.148,48 €

Real Estate	Beijing 	Mexico City 	Sofia 
Downtown Office Rent p. sqm (p.a.)	245,85 € 	90,40 €	220,88 €
Downtown Office Sales Price p. sqm	2.261,84 €	335,09 €	1.891,81 €
Downtown Office Vacancy Rate	20,00 % 	11,69 %	4,30 %
City Office Rent p. sqm (p.a.)	216,35 €	131,53 €	169,75 €
City Office Sales Price p. sqm	1.573,46 €	509,74 €	1.278,25 €

Where to go

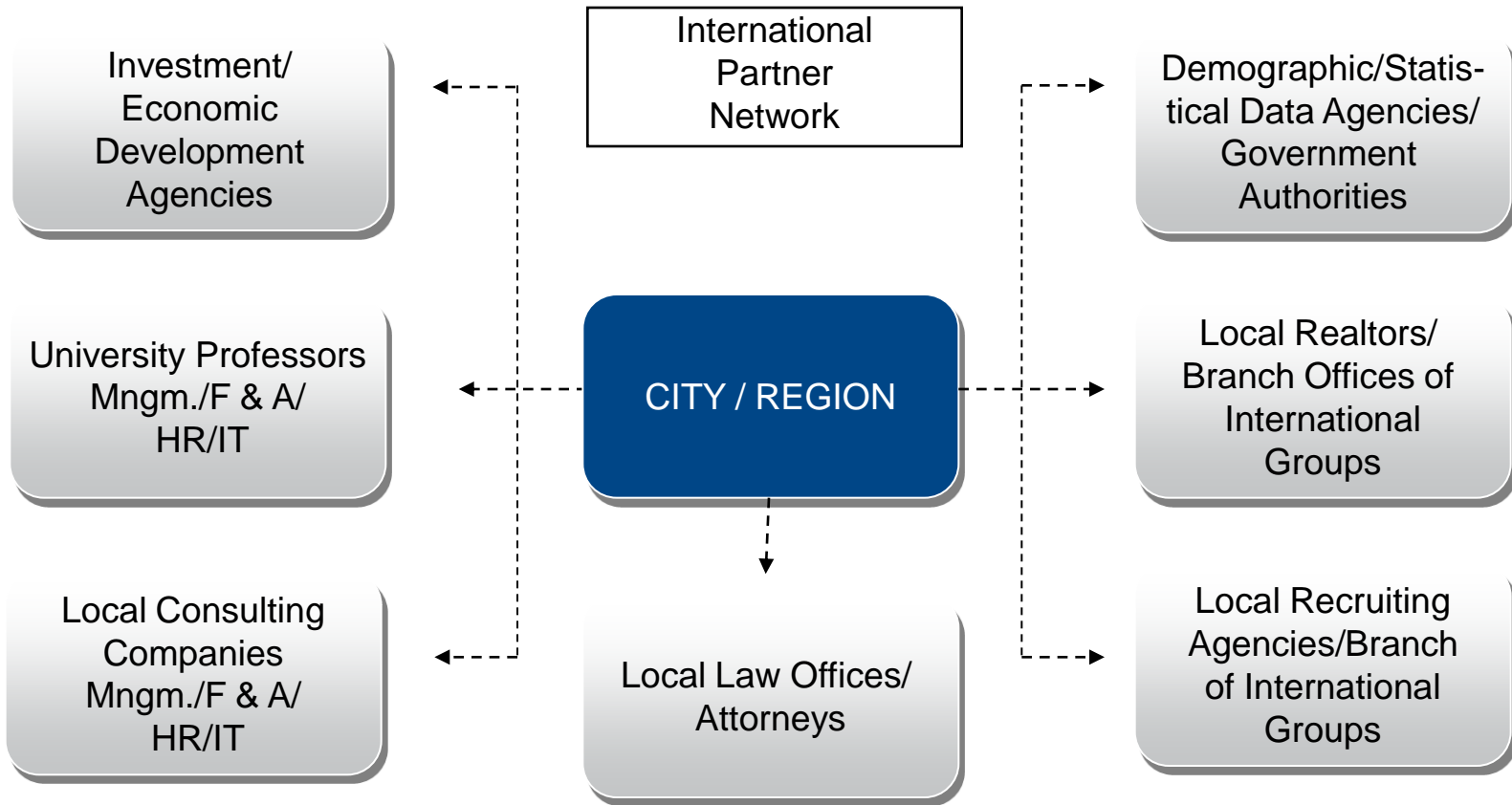
The Database is categorized in four many areas and contains up to 120 different criteria by city



- The level of detail of the Location Selection Criteria Database is worldwide unmatched
- The data allow assembling solid business cases on selected locations without any additional insights or external support
- Also, due to the yearly updated cycle continuous monitoring of locations is possible

Where to go

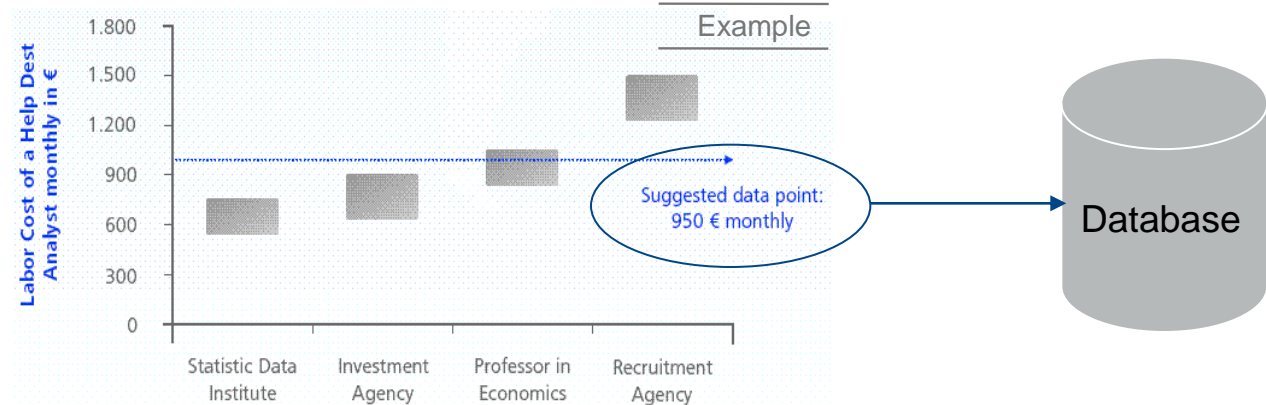
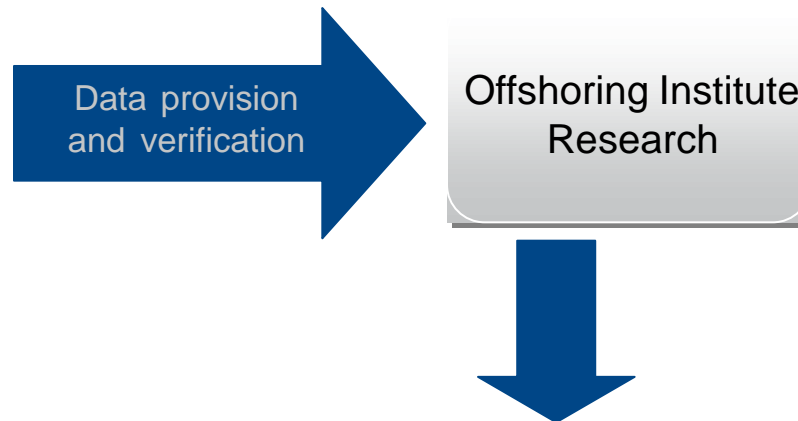
The Institute utilizes various sources of information to obtain reliable data



Where to go

The Offshoring Institute Research determines one robust data point per criterion

- ➔ Investment Development Agencies
- ➔ University Professors
- ➔ Local Consulting Companies
- ➔ Local Recruiting Agencies
- ➔ Local Law Offices / Attorneys
- ➔ Local Realtors
- ➔ Etc.



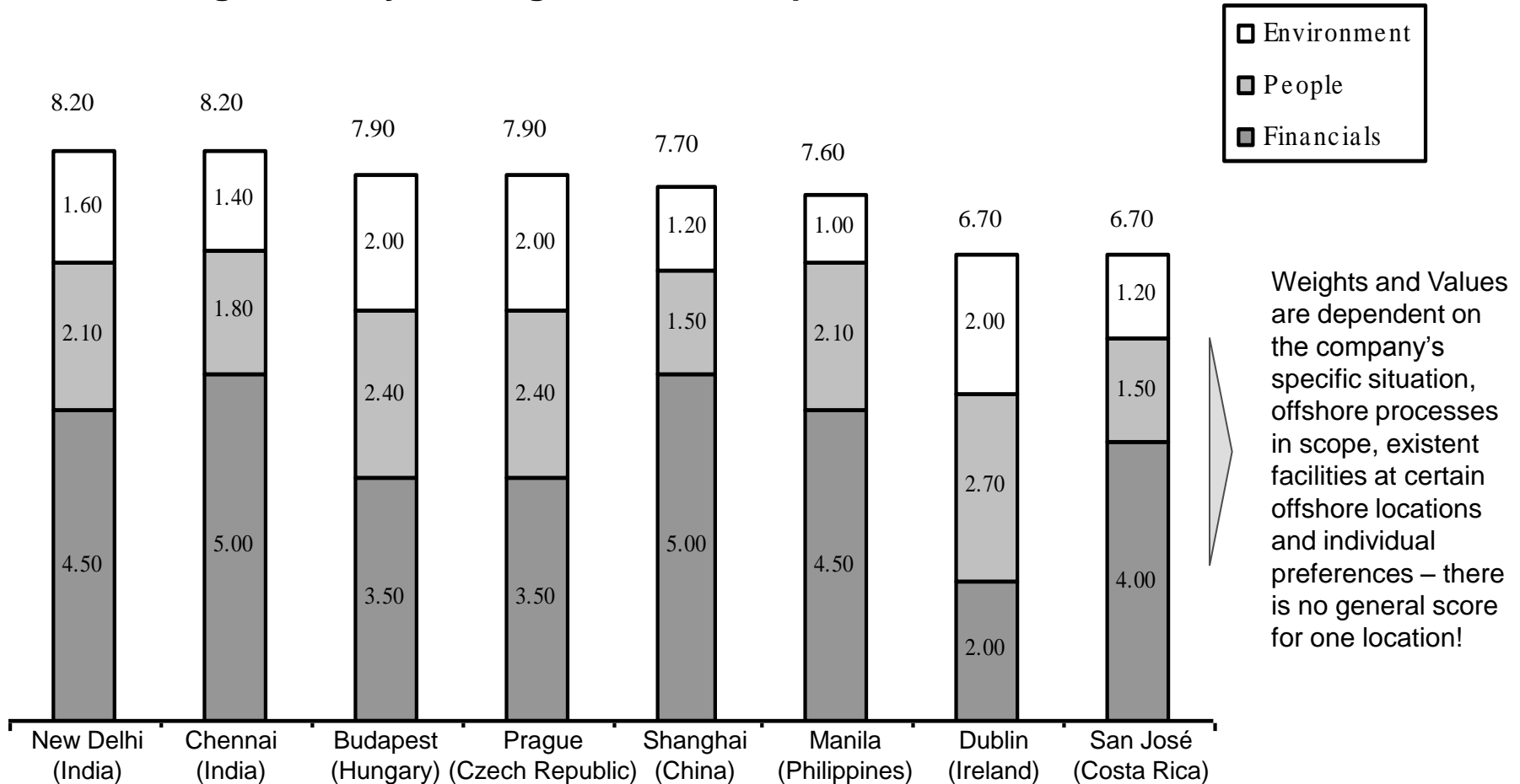
Where to go

Offshoring - Country Scoring Model

Category (% of Total)	Country Characteristic	Metrics Used (Examples)	Metric Weight
Financial (50%)	<ul style="list-style-type: none"> ■ Cost of labor ■ Cost of management and infrastructure ■ Tax and treasury impact 	<ul style="list-style-type: none"> ■ Blended client wage costs, minimum wages ■ Average air, expatriate management salary and expenses, and occupancy/electricity costs ■ Corporate tax rates, profit realization/exchange rates 	<p>40%</p> <p>5%</p> <p>5%</p>
Environment (25%)	<ul style="list-style-type: none"> ■ Political and economic risk/stability ■ Country infrastructure ■ Cultural compatibility ■ Geographic proximity ■ Security of IP 	<ul style="list-style-type: none"> ■ Political and economic risk, government support ■ Relative strength of infrastructure and investments ■ Cultural differences/compatibility compared to U.S. ■ Relative distance (in bands) from U.S. ■ Relative security of intellectual property 	<p>5%</p> <p>5%</p> <p>5%</p> <p>5%</p> <p>5%</p>
People (25%)	<ul style="list-style-type: none"> ■ Outsourcing process experience, expertise ■ Size of labor market ■ Education level of work force ■ Language barriers & literacy rates ■ Employee retention 	<ul style="list-style-type: none"> ■ CMM SEI quality ratings, offshore market share ■ Available total labor market ■ Expected per capita education level ■ Percent fluency in English (client and third party), country literacy rates ■ Client retention/turnover rates 	<p>5%</p> <p>5%</p> <p>5%</p> <p>5%</p> <p>5%</p>

Where to go

Offshoring - Country Scoring Model - Example



Where to go

Salary gaps in low cost locations between managerial and clerk level are usually much higher than in high cost ones due to talent shortage of managerial staff

Salaries comparison between the different level for an HR unit

Level	In % of employees	Berlin	Bucharest	Bangalore	Shanghai
Director	0,7 %	€61.589	€30.395	€52.335	€28.360
HR Manager	1,3 %	€57.102	€26.157	€24.074	€17.945
HR Specialist	9 %	€29.702	€9.201	€6.447	€11.261
HR Clerk	89 %	€26.957	€5.665	€3.077	€8.424

Annotations in the table: Yellow circles with arrows pointing to the Bucharest column containing '2.2x', '5.3x', and '17x'. Yellow circles with arrows pointing to the Shanghai column containing '3.3x'.

Comments

- Directors in low cost locations enjoy salaries similar to those in high cost ones
- These differences can be of the order of tents of times
- These high differences usually lead to high attrition levels

Source: Offshoring Institute

Where to go

The breakdown of the location selection criteria provides and comprehensive and exhaustive platform in order to balance the various location options

Illustrative

Financial	Infrastructure	People	Environment
Taxation	Real Estate	Languages	Economy (National Level)
Specific Tax Regulations with regards to BPO/SSC/ITO/Call Center Industry	Downtown Office Rent p. sqm (p.a.)		Inflation Rate
City/Office Rent p. sqm (p.a.)	Downtown Office Sales Price p. sqm	Population Speaking English	Member of Regional or International Commercial Trade
City/Office Sales Price p. sqm	Downtown Office Vacancy Rate	Population Speaking Spanish	GDP per Capita (PPP)
City/Office Vacancy Rate	City/Office Rent p. sqm (p.a.)	Population Speaking French	GDP (Real Growth Rate)
Tax Incentives	City/Office Sales Price p. sqm	Population Speaking German	Index of Economic Freedom (1 = repressed, 10 = free)
Other Investment Incentives	City/Office Vacancy Rate	Population Speaking Russian	Foreign Direct Investment Confidence Index (0 = worst, 3 = best)
Regional Taxes	Metropolitan Area Office Rent p. sqm (p.a.)	Population Speaking Chinese	Corruption Perception Index (0 = corrupt, 10 = best)
Social Benefits	Metropolitan Area Office Sales Price p. sqm	Population Speaking Japanese	Economy Overview
Pension	Metropolitan Area Office Vacancy Rate	Other Languages	Exchange Rate: 1 USD =
Health Care	Availability of Business Parks	Specific language areas	Exchange Rate: 1 Euro =
Other Social Benefits	Business/Technology Parks Office Rent p. sqm (p.a.)	Size of Labor Market	Political (National Level)
Summary Social Benefits	Business/Technology Parks Office Sales Price p. sqm	Labor Market Size (Total)	Political System and Trade Issues
Wage Cost (p.a.)	Business/Technology Parks Office Vacancy Rate	Labor Market Size	Last Political Hazardous Event
Cost of Executives/Directors	Office Rent p. sqm in Metropolitan Area (p.a.)	Unemployment Rate	Actual Conflict (Year)
Call Center Manager	Office Sales Price p. sqm inside Metropolitan Area	Unemployment Rate for Graduates (University Level)	Government Effectiveness Index (0 = worst, 5 = best)
Call Center Supervisor	Average Vacancy Rate	Attrition Rate in Administrative Professions	Capital
Call Center Operator/Agent/Telemarketer	Average Office Rent p. sqm (p.a.)	Attrition Rate in BPO/ITO/SSC/Call Center Industry	Country Population (Bk)
Engineering and Technical Manager	Average Office Sales Price p. sqm	Holidays and Vacations (National Average)	Cultural Compatibility (City Level)
Engineer	Total Office Build-up Area	Nationwide Public Holidays	Reluctance About Specific Countries
Technician	Telecommunications	Paid Leave	Geographic Proximity (City Level)
Account/Finance Manager	Telephone Communications	Average Days of Absence per Year	Time Zone
Financial Analyst	Phonecall to USA per Minute	Education	Closest Biggest Economy
Account Clerk	Phonecall to Central Europe per Minute	Number of Graduates per Year	Average Travel Time (4h from Central Europe Frankfurt)
Human Resources Manager	Internet Availability	Number of Higher Educational Institutions	Average Travel Time (8h from USA New York)
Human Resources Specialist	Cost per Month	List of Higher Educational Institutions	Security of IP (City Level)
Human Resources Clerk	Speed	Graduate Population from University and Higher Degree	Established Regulations for Data Transfer Security

Languages

- Population speaking:
 - English
 - Spanish
 - French
 - German
 - Russian
 - Chinese
 - Japanese





Wages











- Engineer and Technical Manager
- Engineer
- Technician
- Finance Manager
- Financial Analyst
- Accounts Clerk

Where to go

Reliable location data are difficult to obtain but extremely crucial in order to match your SSO goals

Example

Wage Costs (p.a.)	Berlin 	Bucharest 	Bangalore 	Shanghai 
Human Resources Manager	57.102,00 €	26.157,85 €	24.074,37 €	17.945,93 €
Human Resources Specialist	29.702,00 €	9.201,67 €	6.447,75 €	11.261,02 €
Human Resources Clerk	26.957,00 €	5.665,71 €	3.077,33 €	8.424,93 €

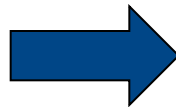
Languages	Berlin 	Bucharest 	Bangalore 	Shanghai 
Official Language	German	Romanian	Kannada	Mandarin
Population Speaking English	48,00 %	39,00 %	70,00 %	5,50 %
Population Speaking Spanish	7,00 %	3,00 %	0,04 % 	0,40 %
Population Speaking French	13,00 %	24,00 %	0,01 % 	0,80 %
Population Speaking German	93,00 %	16,00 %	0,02 % 	0,60 %
Population Speaking Russian	29,00 %	10,00 %	N/A	0,40 %
Population Speaking Chinese	2,00 %	0,50 % 	0,06 % 	97,50 %
Population Speaking Japanese	0,50 %	0,20 %	N/A	0,80 %
Other Languages	Turkish 	Hungarian, Roma	Hindi, Tamil	Shanghai dialect
Specific Language Areas	Kreuzberg (Turkish) Charlottenburg (Russian) Lichtenberg (Asian)	None	None	None

Where to go

Raw location data need to be converted through a location model in order to get a comprehensive location ranking

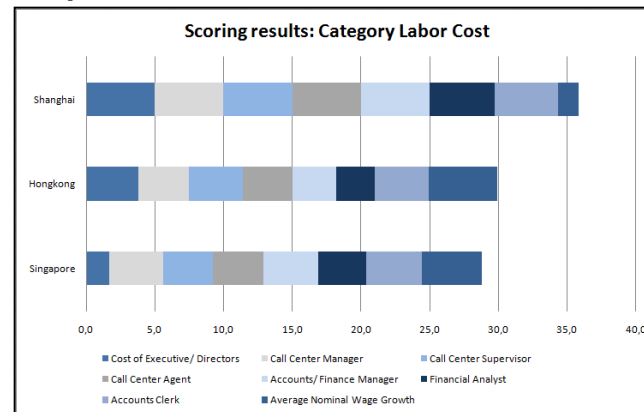
Step 1: Research data

Category/ Criterion	Singapore	Hongkong	Shanghai
Labor cost			
Accounts/ Finance Manager	17.775,90 €	17.598,14 €	21.440,97 €
Financial Analyst	51.195,80 €	50.683,70 €	55.532,10 €
Accounts Clerk	43.515,79 €	43.080,93 €	46.666,26 €
...
People			
Size of labor pool overall	2.590.000	3.336.500	14.038.500
Unemployment rate	2,70%	3,60%	4,40%
Attrition rate in administrative professions	3%	16%	16%
...
Infrastructure			
Downtown Office Rent p. sqm (p.a.)	530,89 €	952,50 €	340,59 €
Downtown Office Sales Price p. sqm (p.a.)	7.897,01 €	17.115,00 €	1.816,45 €
...
Environment			
Corruption Perception	9,4	9,6	3,5
Government Effectiveness	4,7	3,6	3,5
Population of the City	2.980.000	6980412	8.008.690
...



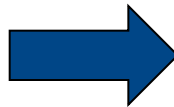
Compare criteria and score them from "1" (worst) to "5" (best)

Step 2: Score Locations

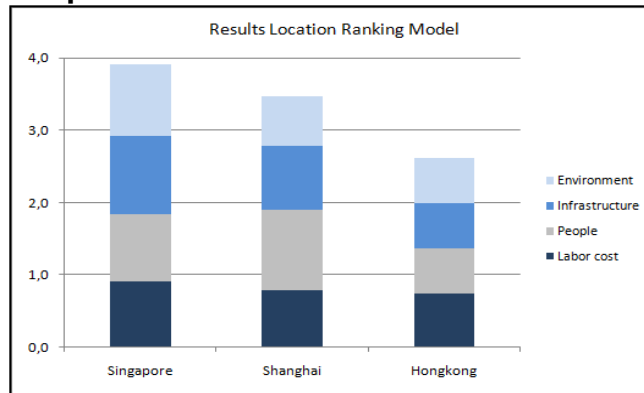


Step 3: Weight criteria and categories

Category/ Criterion	Executive 1	Executive 2	Executive 3	Average
Labor cost	30%	40%	35%	35%
Accounts/ Finance Manager	20%	25%	30%	25%
Financial Analyst	30%	30%	20%	27%
Accounts Clerk	50%	45%	50%	48%
...
People	25%	20%	25%	23%
Size of labor pool overall	40%	40%	50%	43%
Unemployment rate	30%	20%	30%	27%
Attrition rate in administrative professions	30%	40%	20%	30%
...
Infrastructure	20%	15%	30%	22%
Downtown Office Rent p. sqm (p.a.)	80%	50%	70%	67%
Downtown Office Sales Price p. sqm (p.a.)	20%	50%	30%	33%
...
Environment	25%	25%	10%	20%
Corruption Perception	20%	30%	25%	25%
Government Effectiveness	40%	30%	45%	38%
Population of the City	30%	40%	30%	33%
...

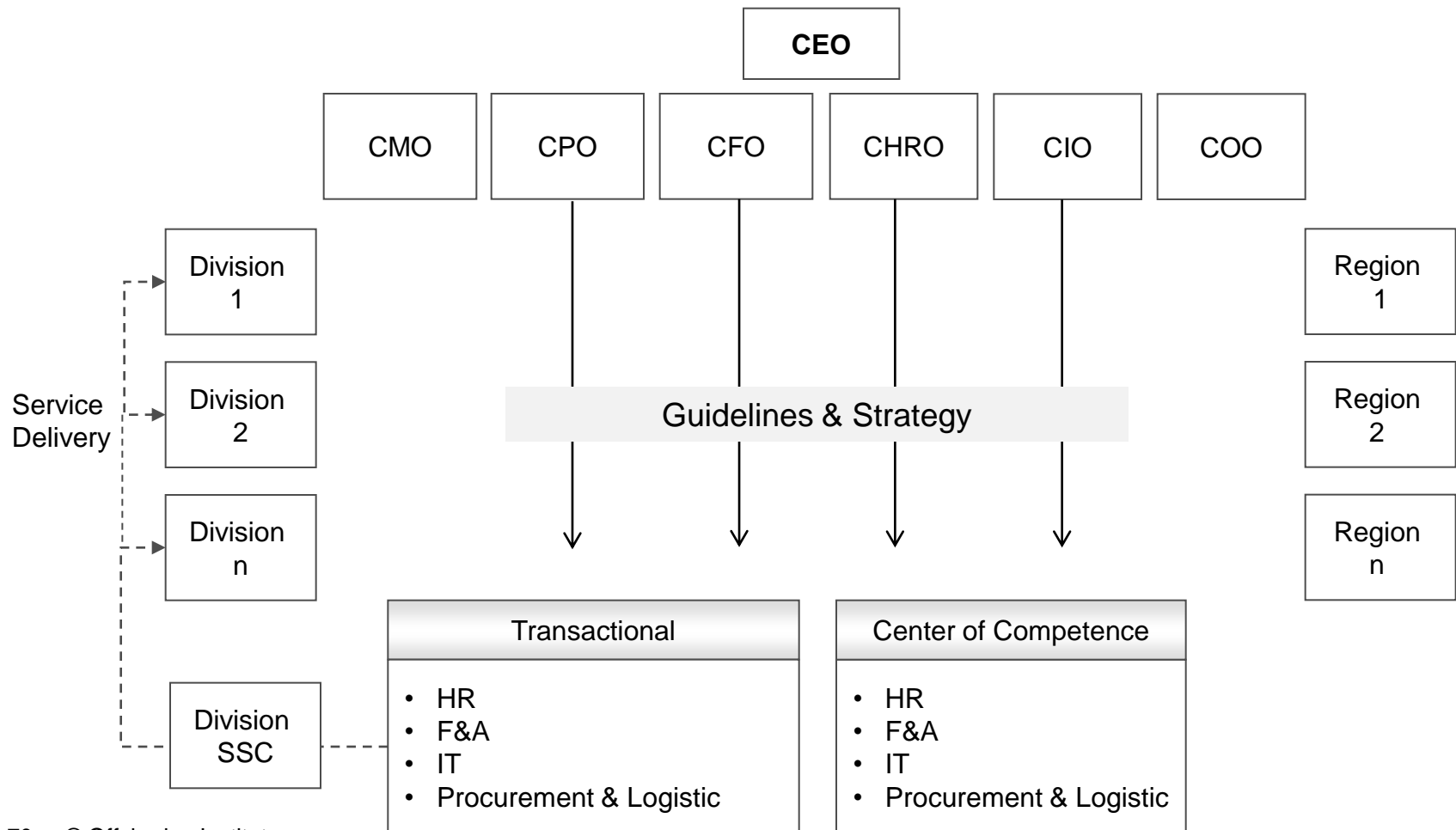


Step 4: Summarize and rank Locations



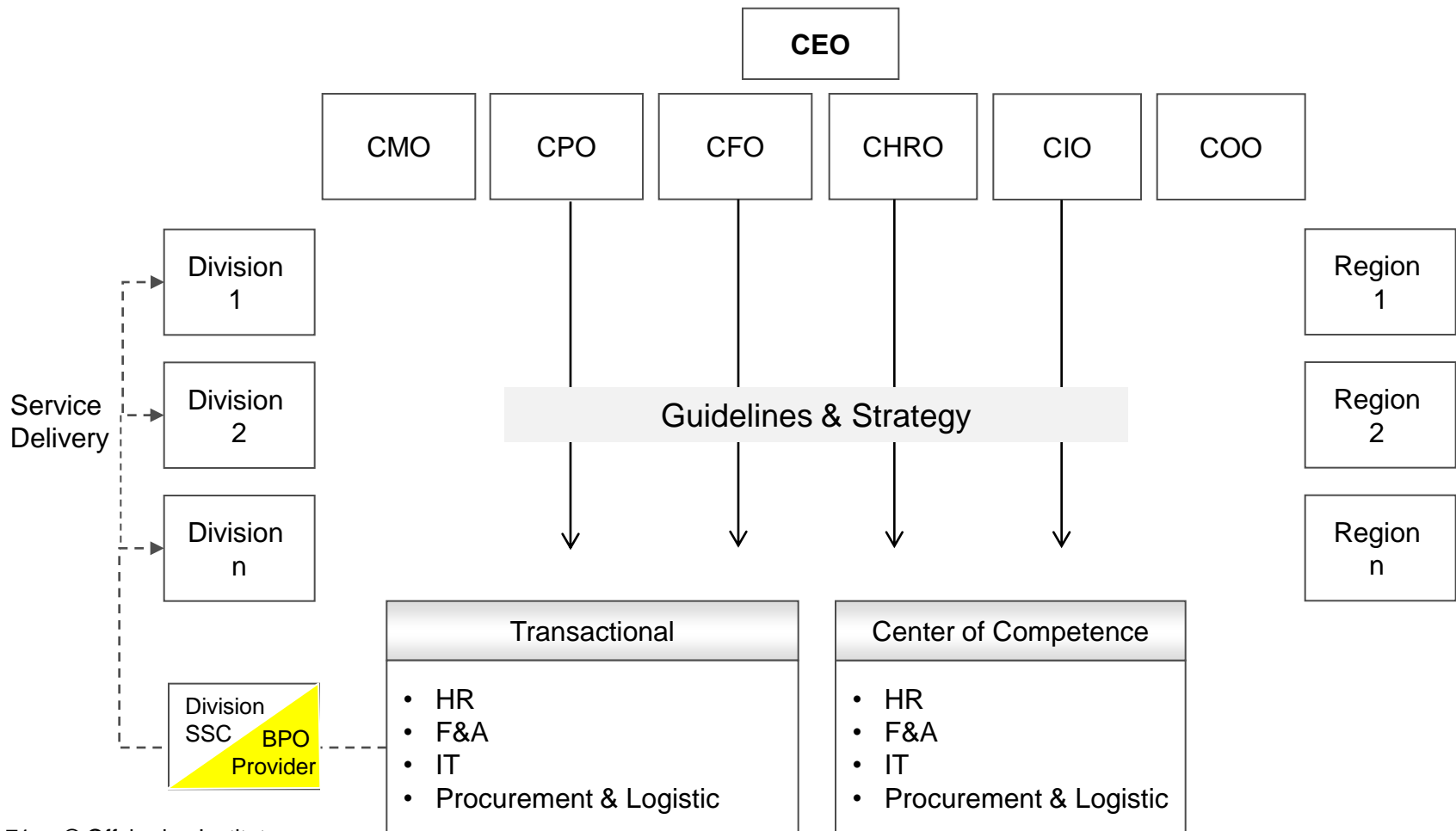
Where to go

Advanced corporations consolidate services in a separate business unit



Where to go

The business unit „services“ should eventually be responsible for the BPO strategy as well



Appendix

HR Processes

Processes	Services / Products	Charging Method / Cost Driver
Workforce management	<ul style="list-style-type: none"> ▪ New Hire / on-boarding ▪ Employee data maintenance ▪ Time and attendance management ▪ Terminations/ transfers ▪ Leave management ▪ Promotions / demotions ▪ Organization structure maintenance ▪ Workforce analytics ▪ Expatriate assistance ▪ Other in-scope administrative programs 	<ul style="list-style-type: none"> ▪ Fixed fee per company's FTE ▪ Per transaction ▪ Per FTE/time
Payroll	<ul style="list-style-type: none"> ▪ Time file receipt ▪ On-cycle / off-cycle pay processing ▪ Bonus payment processing ▪ Taxes and accounting ▪ Balancing and auditing ▪ Year-end processing ▪ Compliance monitoring ▪ General ledger interface / mapping ▪ Third party integration 	<ul style="list-style-type: none"> ▪ Per transaction ▪ Per FTE/time ▪ Time and material ▪ Fixed fee per company's FTE
Benefits administration	<ul style="list-style-type: none"> ▪ Completed administration for: <ul style="list-style-type: none"> ▪ Health and welfare ▪ Defined contribution ▪ Defined benefits ▪ Participant services ▪ Plan sponsor services ▪ Communication and education ▪ Compliance ▪ Investments 	<ul style="list-style-type: none"> ▪ Fixed price ▪ Per FTE/time ▪ Per transaction ▪ Fixed fee per company's FTE

Appendix

HR Processes

Processes	Services / Products	Charging Method / Cost Driver
Recruiting	<ul style="list-style-type: none"> ▪ Develop and execute sourcing plan ▪ Application screening/filtering ▪ Interviews ▪ Assessment centers ▪ Selection ▪ Offer/rejection management 	<ul style="list-style-type: none"> ▪ FTE/time ▪ Per new hire
Training and Development	<ul style="list-style-type: none"> ▪ Training administration ▪ Training material creation and maintenance ▪ Training strategy ▪ Identity management 	<ul style="list-style-type: none"> ▪ Per project ▪ FTE/time ▪ Fixed fee per trained employee
HRIS	<ul style="list-style-type: none"> ▪ HRIS system customizing and maintenance ▪ Online Platform maintenance ▪ Website administration ▪ Terminal administration ▪ Employee data management 	<ul style="list-style-type: none"> ▪ FTE/time ▪ Per User
Employee Service	<ul style="list-style-type: none"> ▪ Service centre for inquiry and transaction processing for employees, managers and HR ▪ Employee satisfaction surveys 	<ul style="list-style-type: none"> ▪ Per transaction ▪ Fixed price

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