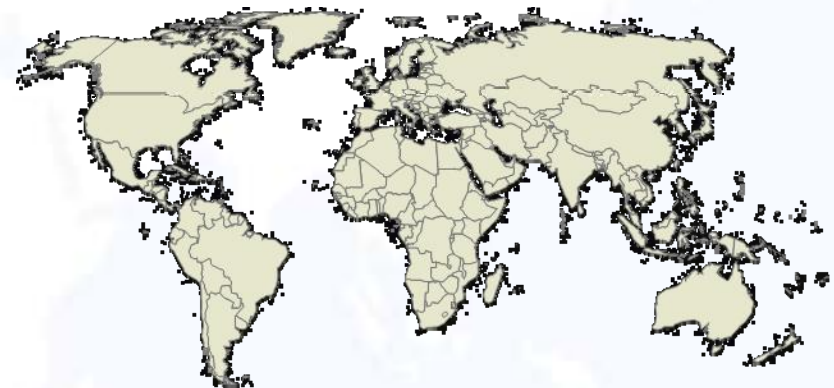




Where To Start: The Top Ten Location Considerations



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Impact of SSO Location

A rigorous framework for location selection leads to a footprint that supports your SSO strategy in the most effective way

Location Selection Approach

	Step 1: Global Location Footprint Assessment	Step 2: Selection Criteria Definition and Weighting	Step 3: Data Capturing and Location Model	Step 4: Location Selection Workshop
Key Tasks	<ul style="list-style-type: none"> • Capture company-specific requirements • Assess existent global footprint • Understand core processes, i.e. operations, sales, marketing by region and country • Assess back office allocation (baseline and performance) and specific requirements • Understand regional, sub-regional and county-specific hubs 	<ul style="list-style-type: none"> • Screen selection criteria of the Offshoring Institute Location Selection Database • Identify relevant location selection criteria • Verify and prioritize selection criteria through key stakeholder • Define relative weights of criteria categories and single criteria • If required add additional criteria and assign weightings 	<ul style="list-style-type: none"> • Insert selected data Location Selection Database into Location Model • Capture additional data through Offshoring Institute Research Approach • Complete Location Selection Model and run model • Compile results and incorporate fine-tuning adjustments • Complete results presentation 	<ul style="list-style-type: none"> • Present results to project team and stakeholder group • Discuss results and provide insight and rationale • Agree on location footprint • Identify additional data points needed
Tools & Methodologies	<ul style="list-style-type: none"> • Offshoring Institute Global Location Assessment Tool 	<ul style="list-style-type: none"> • Offshoring Institute Location Selection Database 	<ul style="list-style-type: none"> • Offshoring Institute Research Approach (→ Affiliated Researchers Network) • Offshoring Institute Location Selection Model 	<ul style="list-style-type: none"> • Location Selection Workshop

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Matching SSO Goals

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)		Member of Regional Bloc
City Office Sales Price (p.sqm)	Downtown Office Vacancy Rate		GDP (Real Growth Rate)
City Office Vacancy Rate	City Office Rent (p.sqm (p.a.))		Index of Economic Freedom (1 = repressed, 10 = free)
Tax Incentives	City Office Sales Price (p.sqm)		Foreign Direct Investment Inflow Index (0 = worst, 3 = best)
User Investment Incentives	City Office Vacancy Rate		Corruption Perception Index (0 = corrupt, 10 = best)
Regional Taxes	Metropolitan Area Office Rent (p.sqm (p.a.))		Economy Outlook
Social Benefits	Metropolitan Area Office Sales Price (p.sqm)		Exchange Rate: 1 USD =
Pension	Metropolitan Area Office Vacancy Rate	Other Languages	Exchange Rate: 1 Euro =
Health Care	Availability of Business Parks	Specific Language Areas	Political (National Level)
Other Social Benefits	Business/Technology Parks Office Rent (p.sqm (p.a.))	Size of Labor Market	Political System and Trade Deals
Summary Social Benefits	Business/Technology Parks Office Sales Price (p.sqm)	Labor Market Size (Total)	Last Political Hazardous Event
Wage Costs (p.a.)	Business/Technology Parks Office Vacancy Rate	Labor Market Size	Actual Conflict (Years)
Cost of Executives/Directors	Office Rent (sqm in Metropolitan Area (p.a.))	Unemployment Rate	Government Effectiveness Index (0 = worst, 5 = best)
Call Center Manager	Office Sales Price (p.sqm inside Metropolitan Area)	Unemployment Rate for Graduates (University Level)	Capital
Call Center Supervisor	Average Vacancy Rate	Attrition Rate in Administrative/Professional	Official Company Group Rating
Call Center Operator/Agent/Telemarketer	Average Office Rent (p.sqm (p.a.))	Attrition Rate in BPO/ITO/SSC/Call Center	Reluctance About Specific Countries
	Average Office Sales Price (p.sqm)	Language and Dialects (Local Language)	Geographic Proximity (City Level)
	Total Office Buildup (p.a.)	Nationwide Public Holidays	Time Zone
	Telecommunications	Paid Leave	
	Telephone Communications	Average Days of Absence per Year	
	Phone Call to Central Europe per Minute		
Human Resources Manager	Internet Availability	Number of Higher Educational Institutions	
Human Resources Specialist	Cost per Month	Level of Higher Education at Institutions	Security of IP (City Level)
Human Resources Clerk	Speed	Graduate Population from University and Higher Degrees	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

Matching SSO Goals

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

Example

Wage Costs (p.a.)	Bogota <input type="checkbox"/>	Cairo <input type="checkbox"/>	Warsaw <input type="checkbox"/>
Accounts/Finance Manager	16.439,70 €	17.572,59 €	30.255,67 €
Financial Analyst	10.768,98 €	11.715,06 €	16.654,50 €
Accounts Clerk	6.990,48 €	6.345,66 €	9.159,97 €

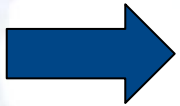
Languages	Bogota <input type="checkbox"/>	Cairo <input type="checkbox"/>	Warsaw <input type="checkbox"/>
Official Language	Spanish	Arabic Language <input type="checkbox"/>	Polish
Population Speaking English	6,70 %	29,00 %	41,60 %
Population Speaking Spanish	100,00 %	3,00 %	1,70 %
Population Speaking French	0,01 % <input type="checkbox"/>	18,00 %	6,80 %
Population Speaking German	0,01 % <input type="checkbox"/>	7,00 %	32,10 %
Population Speaking Russian	0 % <input type="checkbox"/>	1,00 %	26,30 %
Population Speaking Chinese	0 % <input type="checkbox"/>	1,00 %	N/A
Population Speaking Japanese	0 % <input type="checkbox"/>	0,05 %	N/A

Matching SSO Goals

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

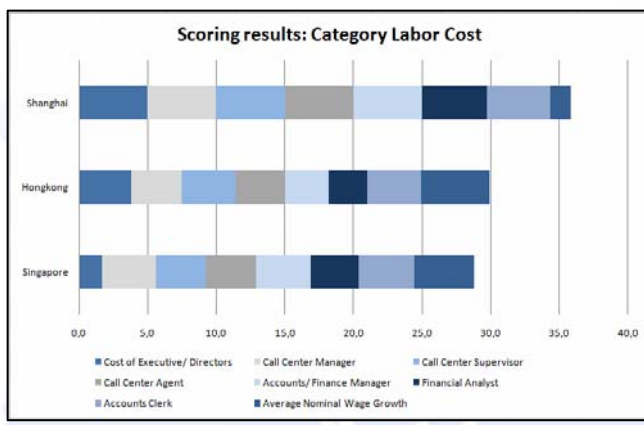
Step 1: Research data

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
...



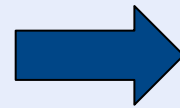
Compare criteria and score them from "1" (worst) to "5" (best)

Step 2: Score Locations

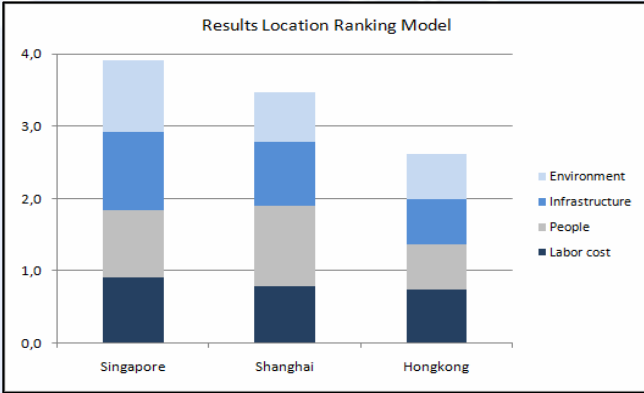


Step 3: Weight criteria and categories

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



Step 4: Summarize and rank Locations



Matching SSO Goals

The scoring methodology need to converts raw location data in an insightful city-by-city comparison

Example

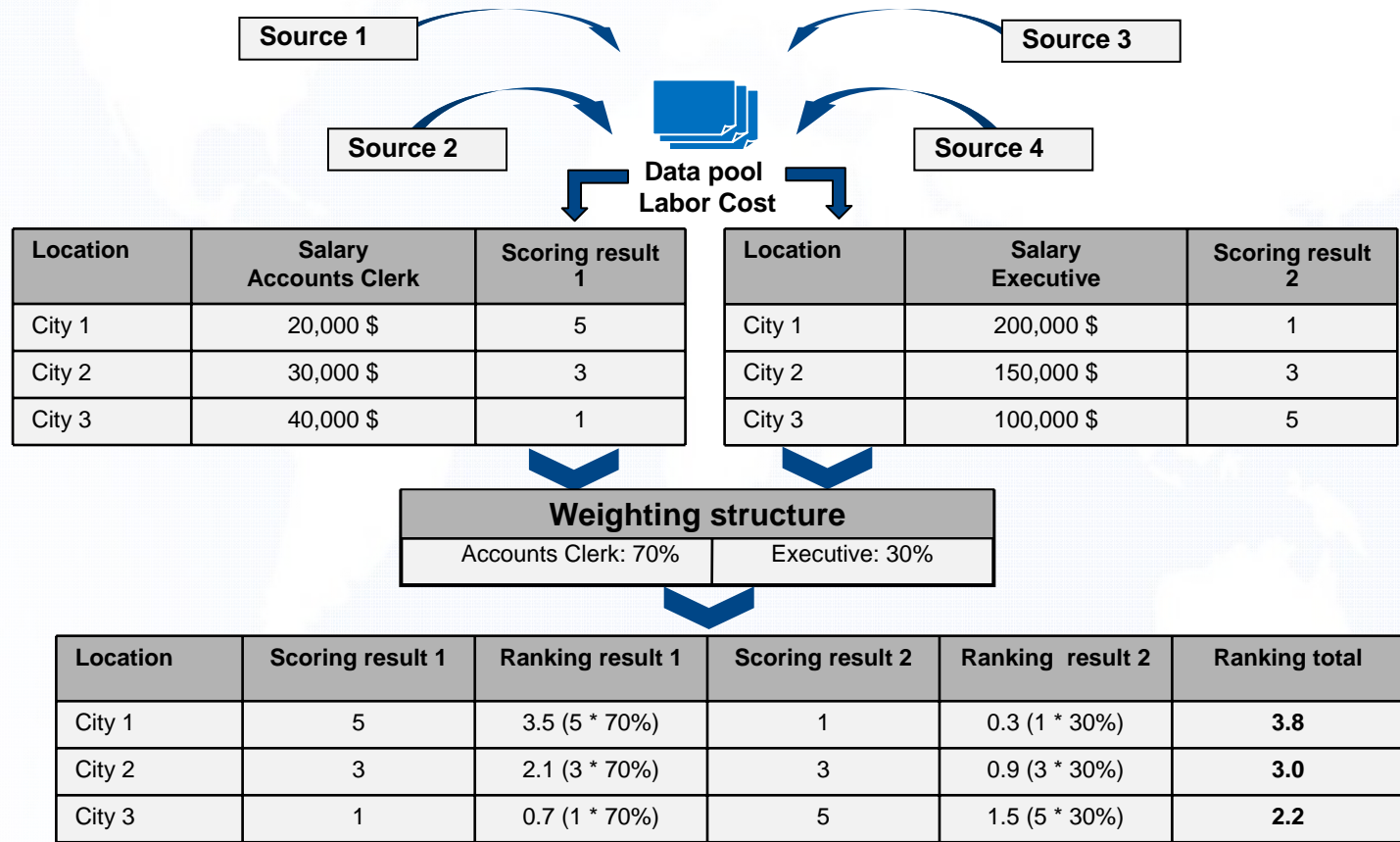


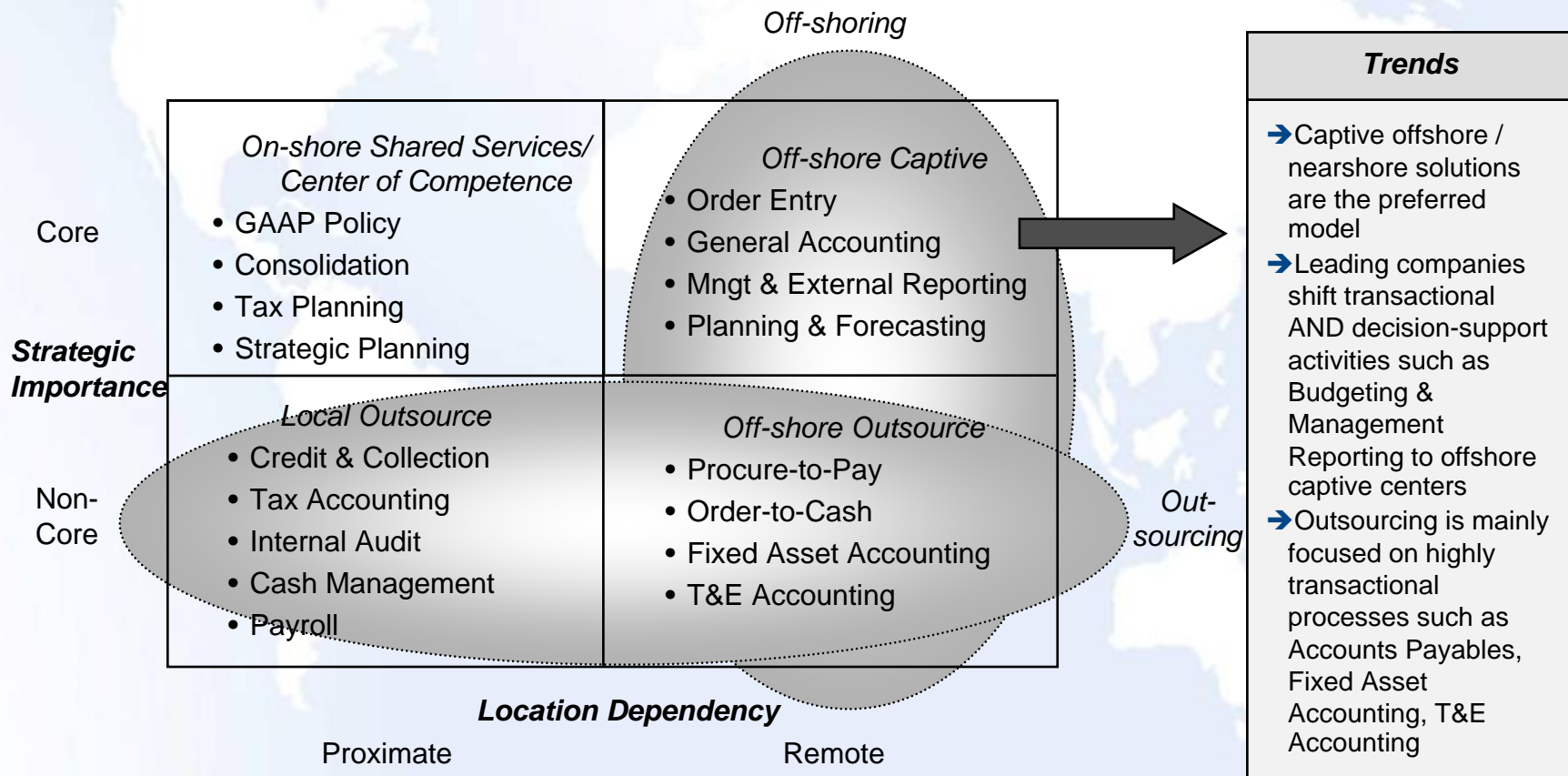
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Matching location to the function

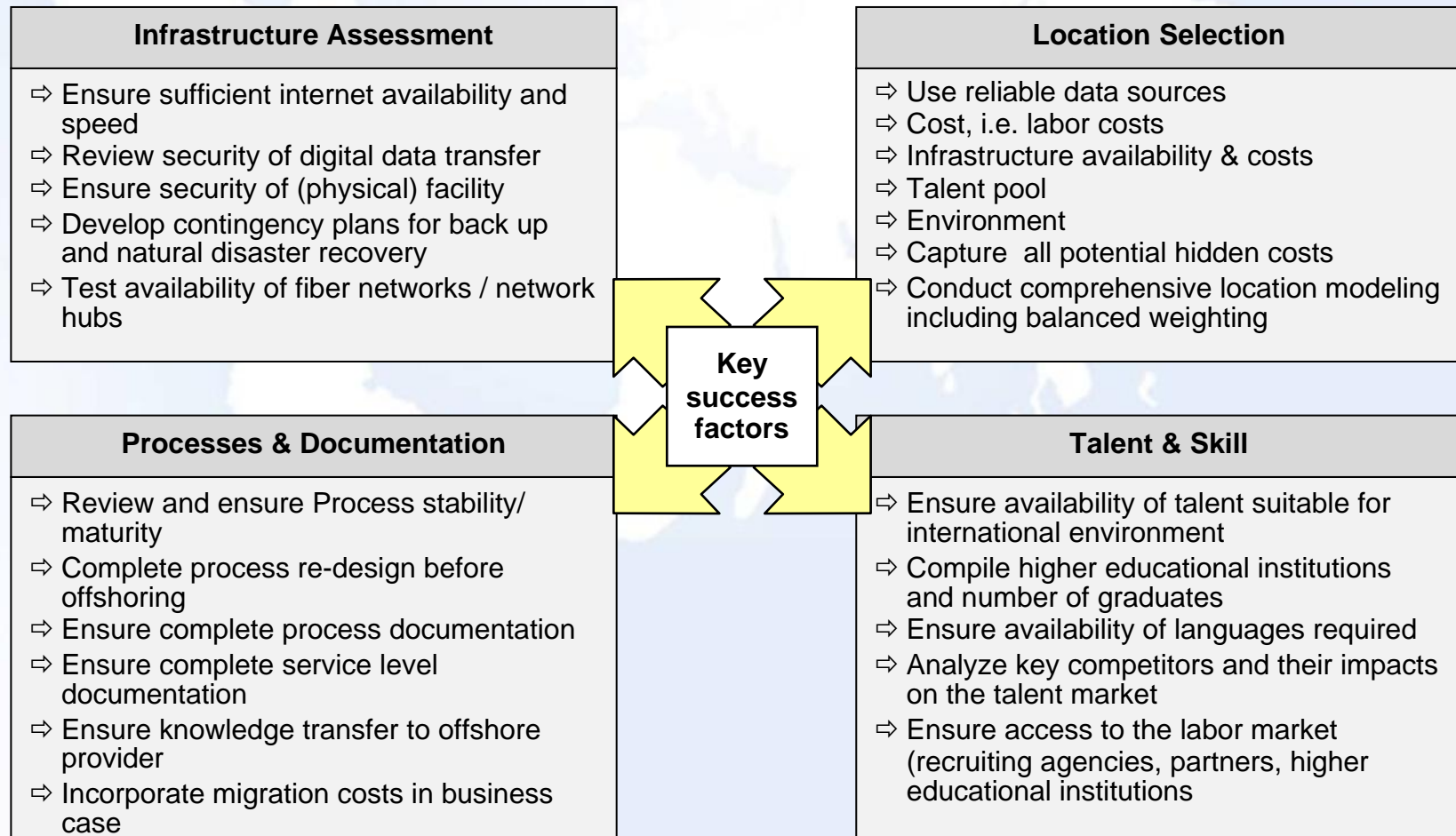
Delivery Options – Strategic importance and location dependency provides a first categorization blueprint. However, each process has to be analyzed in detail

Illustrative



Matching location to the function

The key success factors in the four major location selection categories



Matching location to the function

Salaries are increasing drastically in Offshoring hotspots – but be cautious the type of talent you require

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%

Comments
<ul style="list-style-type: none"> • 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

Matching location to the function

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

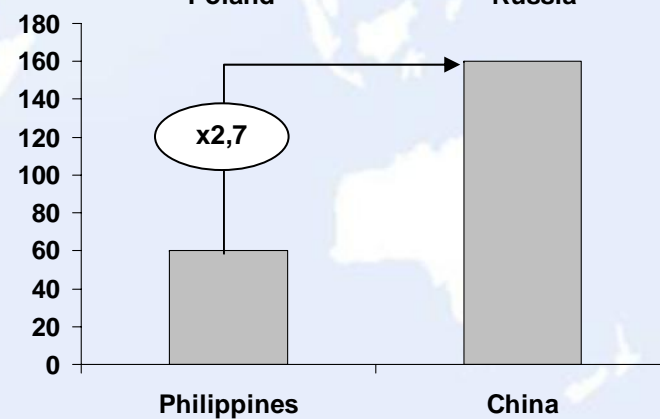
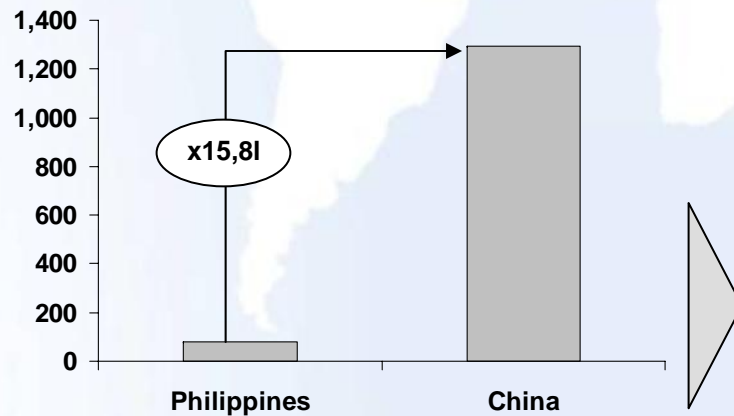
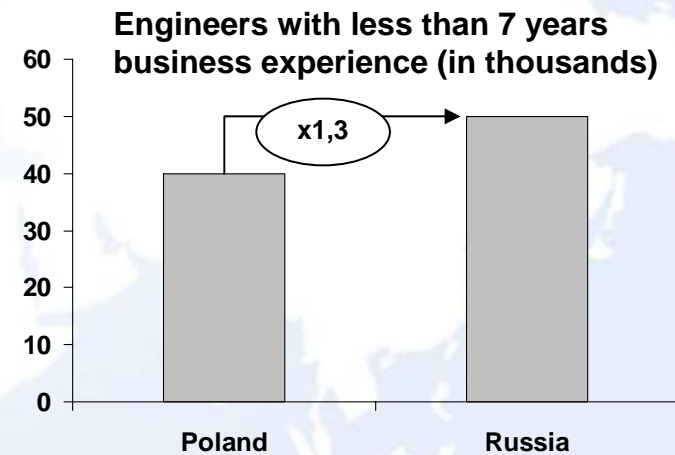
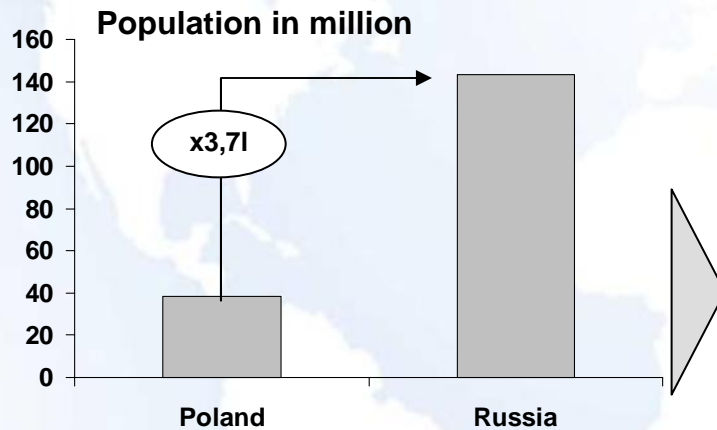


Source: McKinsey Global Institute

Comments
<ul style="list-style-type: none"> • 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

Matching location to the function

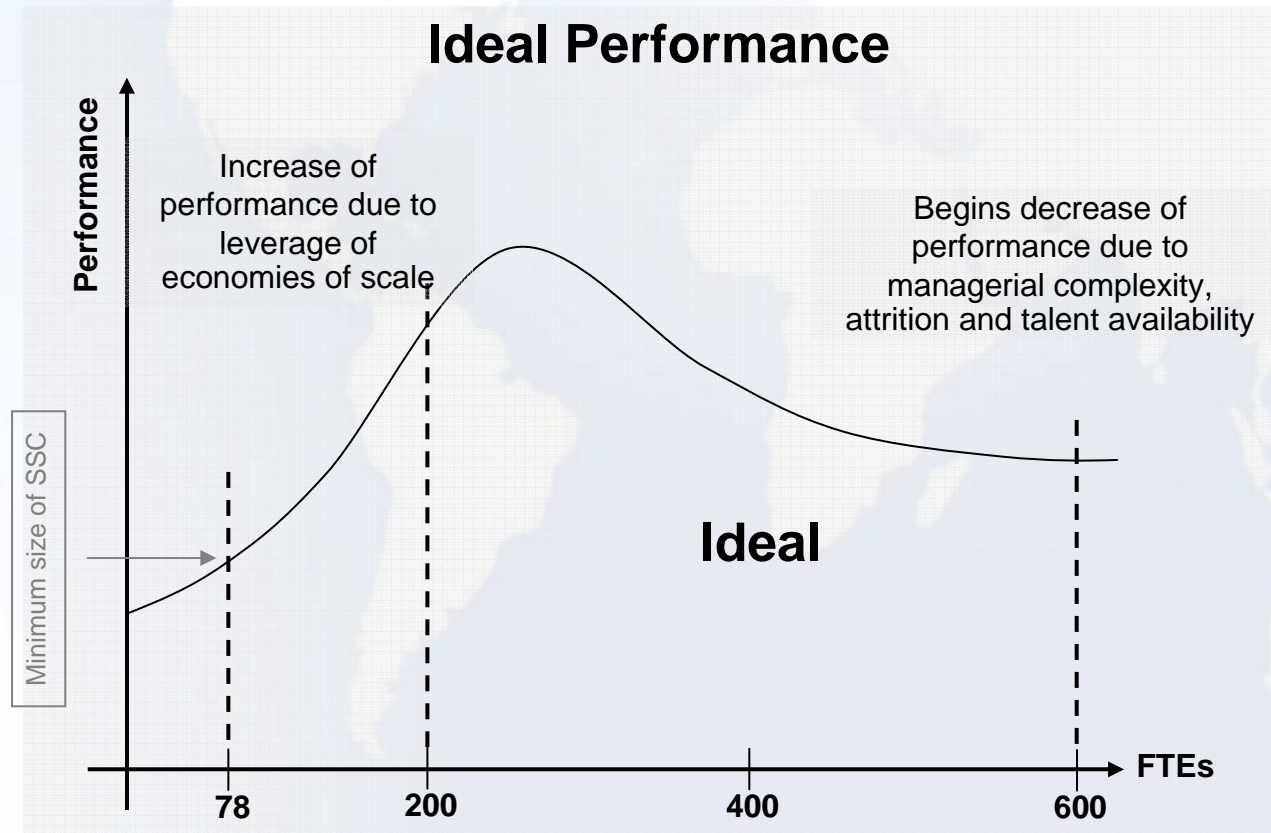
Size of the population can be misleading



Source: Everest Institute

Matching location to the function

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



Comments

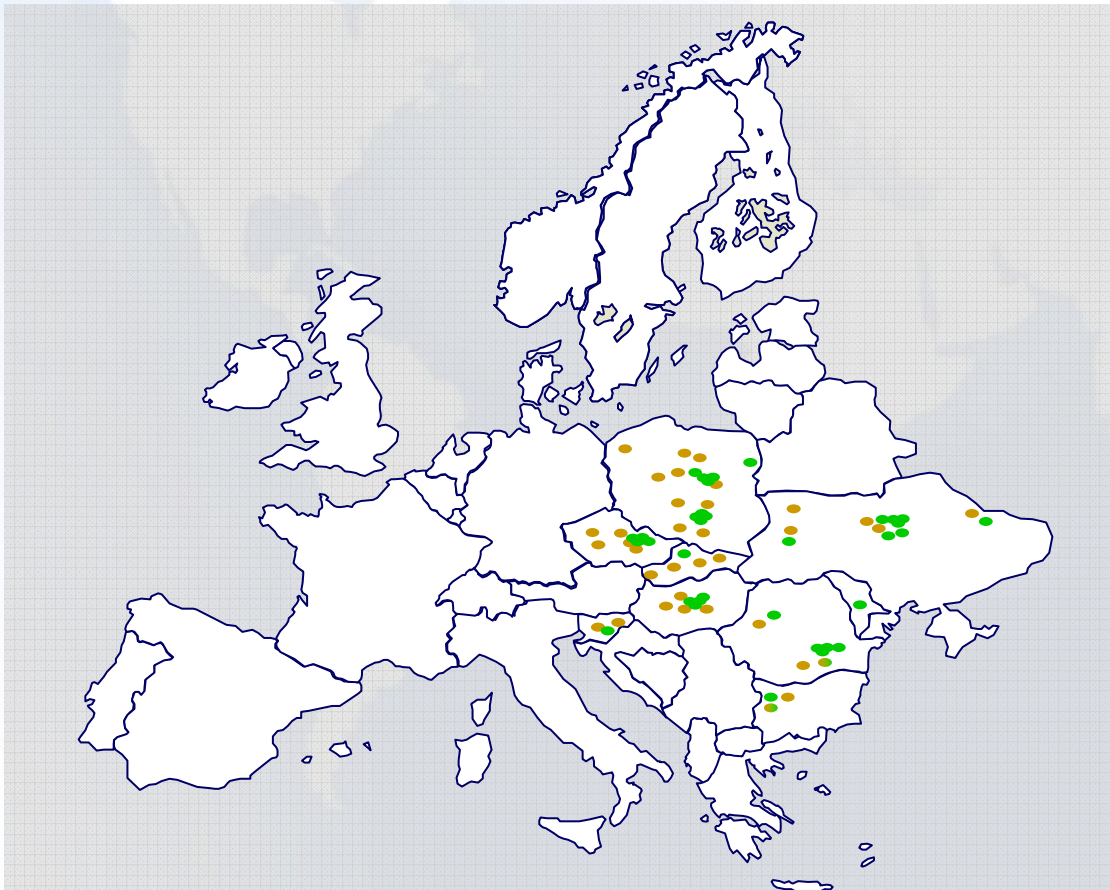
- An acceptable performance of a captive centers starts typically after 80 FTEs.
- After 600 FTEs technical and managerial problems start.
- Governance and Talent Pool availability, attrition and teams coordination are among the main difficulties when handling a services center

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Brownfield vs Greenfield

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 company's 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.

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Onshore, Nearshore, Offshore

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

Illustrative

Decision Factors	Low	High	Comments
Cultural Empathy			<ul style="list-style-type: none"> • These assessments deliver immediate input for the weighting of the respective criteria • Whereas talent pool and labor 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 factors without monetary value or other figures.
Languages Affinity			
Geographical Proximity			
Time Zone Immediacy			
Regular Staff Traveling			
Project Urgency			
Management Retention			
Basic conclusion (simplified)	Offshore	Nearshore	

Onshore, Nearshore, Offshore

Many trends are not driven by rational – Therefore, shoring solutions often bear significant risks that need to be managed (1/2)

Location trends observed in the market	Issue/Rationale	Risk
Browfield instead of greenfield	Brownfield selection by production/distribution criteria	4= Not sufficient talent pool available
Fear of Offshoring/ Reallocating jobs	Public pressure prevents senior executives to locate jobs outside the country (media, unions, political parties, etc.). Nevertheless, jobs losses due to technology are still bearable/acceptable.	4= Corporation in high cost countries lose strategic flexibility due to inappropriate cost structure of the back-office. Technology often does not yield the same cost advantages than offshoring solutions
Shoring solution proposed as part of a trend	Companies often develop and execute a captive solution without a real in-deep process analysis obtaining negative results during the first operations years.	3= Unfixed processes may turn into a burden for the corporation increasing the planned cost benefits.
Captive solution aiming at providing external services	A captive solution is aimed to cut costs, but when top performance is reach the center can return profit due to external services sell.	4= The financial plan of the SSC is often based on the economical benefits of the outsourcing services. When

Low risk = 1 High Risk = 5

Onshore, Nearshore, Offshore

Many trends are not driven by rational – Therefore, shoring solutions often bear significant risks that need to be managed (2/2)

Location trends observed in the market	Issue/Rationale	Risk
Shoring decision driven only by cost-cutting factor	The urgency of developing a cost-cut strategy leads to execute a captive solution due to its accurate cost-cutting effect.	5= The captive solution may fail if important factors like cultural affinity, language capabilities, talent pool, etc. are not taken into account.
Shoring solution to hot-spot	Most companies shore their back-office to already well established offshoring destinations.	4= Lack of suitable talent pool is one of the main problem of the well-established offshoring destinations. When this problem appears, the benefits of the solution turn into negative outcome.
Captive solution for each business region	A SSC for each one of the business regions shall be more suitable due to regional and cultural affinity, time zone and geographical proximity.	1= The risk is mitigated when centralization comes by steps.



Thank you for your attention

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