



Location, location, location.

Your shared services operation: How you can make the right choice

ADVISORY



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Overview

The notion of providing services in a combined or collaborative function, sharing processes and technology is not a flash-in-the-pan phenomenon, it has been embraced by many organisations for twenty years and as such it is an established concept.

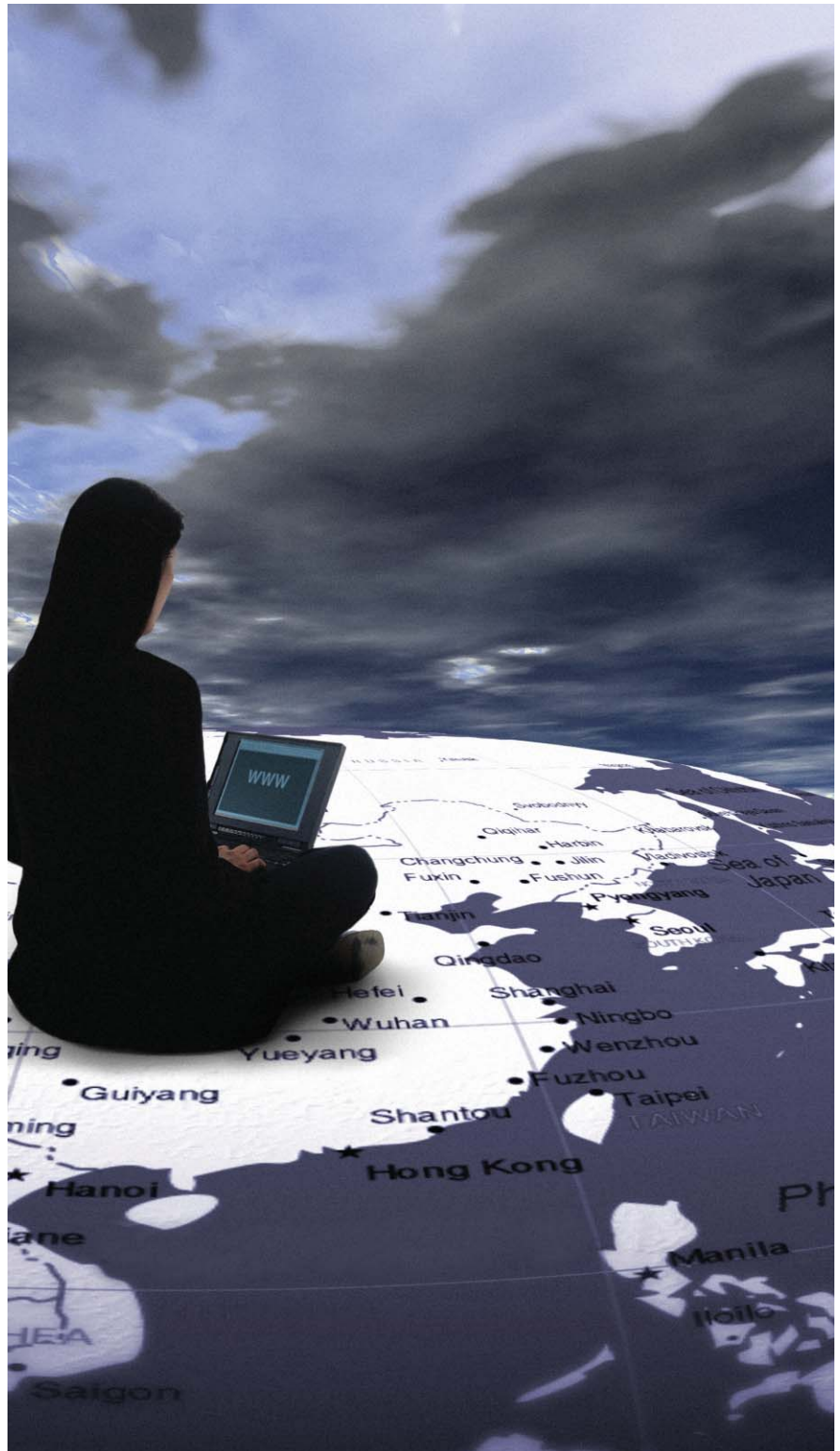
From its roots in US manufacturing, the concept of shared services has spread both in terms of geography and function. Now an established global business practice, it embraces new processes such as finance, HR, IT and procurement. It is increasingly finding a role in high-growth sectors such as telecoms, financial services and the public sector, and the pace of its adoption continues to accelerate.

According to the 2006 Cushman & Wakefield Healy & Baker European Cities Monitor, almost a fifth (19 percent) of major companies had relocated or outsourced operations to another country in the last 12 months – a rate higher than any previous survey. Further, one in five companies (21 percent) plans to relocate or outsource operations in the next two years, also higher than last year. The new EU countries of the 2004 accession are the favoured destinations, followed by China and India. While there is a big drop in relocations to other western European destinations, relocations further east continue to increase.

Why the popularity? The value of shared service centres (SSC) lies in finding a solution to the perennial dilemma – how to obtain better services at lower cost. Companies can cut finance process costs by over 40 percent through the use of shared services, and also improve customer satisfaction, process quality, and productivity. Cost reductions follow from standardising best practice processes, flattening organisational structures and moving to low cost locations. The ability to establish a high-quality control framework and focus operating units on managing core businesses are additional benefits, as is the possibility of improving business intelligence by, for example, enabling comprehensive database management. The goals of flexibility, scalability and resilience are met, with the shared service capability to respond to volume fluctuations and organisational changes.

The value of shared service centres (SSC) lies in finding a solution to the perennial dilemma – how to obtain better services at lower cost.

For the larger company, these potential benefits are proving irresistible and many FTSE 250 companies have already embarked down this route. For them, the challenge is now to take the model one step further, and to maximise value from an existing shared service by possibly outsourcing certain low-value transactional work, or relocating to another more economic site or extending scope to more complex processes. Others have yet to embark on the road and face the cultural and logistical challenges of pulling work from geographically diverse centres into one location. For them, this is not a decision to be taken lightly or without due thought. A comprehensive review of corporate strategy needs to be undertaken, and once a sound business case for shared services has been established, companies need to weigh up the criteria to be met to achieve their goals. Location will be of paramount importance.



How to go about choosing a location

The right location is vital for the success of a shared service centre. Making a poor location choice can be difficult to overcome, given that companies do not typically start and stop activities in a new location on a whim. A robust approach which entails a comprehensive understanding of the dynamics, future trends and risks of a country or region should help determine the right decision to be made.

The big outsourcing providers tend to be more on the risk end of the spectrum in search of higher returns.

“When we first ask our firms’ clients what they want from a shared service centre location, the answer is typically everything – low costs, qualified people, great infrastructure and minimal risk,” says Andreas Dressler, Director, Global Location and Expansion Services at KPMG in Germany. “There will always be a trade-off, and companies have to decide where to draw the balance between cost and risk. That is up to each company’s own appetite.” The big outsourcing providers tend to be more on the risk end of the spectrum in search of higher returns. That is because they are volume businesses with back-up protection, Dressler explains. Companies setting up their own captive centre who will be migrating a lot of work to that one centre are less able to accept that level of risk.

Cultural diversity may also have a part to play, according to Tom Bangemann, Hackett Group VP, Business Transformation. “Most Europeans tend to take a step-by-step or phased approach, based on risk adversity,” he says. “Very few European companies enjoy over 40 percent benefits but there are very few that fail. Americans take a more aggressive approach. They will go with the big bang or a quantum leap, selecting the scenario that gives them the most benefits. It’s not an issue of better or worse it’s just a different way of looking at it.”

It is also essential to gain consensus from all parties when making the location decision. There will be widely diverging views between finance and HR, who will focus on cost and skills issues respectively; there will inevitably also be political issues between regions. These views need to be pooled and weighted, until consensus is reached. If this process is done objectively, through a third party, no one person or group can dominate.

When shared services first broke across the Atlantic and hit Europe, the preferred locations were the Netherlands and Belgium. The wave then shifted in the late nineties to Ireland, the UK and Spain, where labour costs were significantly lower. But competition for skilled labour has hiked up salaries, while pressure on costs has increased. This has led to the emergence of two new lower-cost options. The first is to aggressively pursue cost reduction and outsource some transactions to India, China or the Philippines. However, for the majority of companies, dealing with lower volumes of transactions, the risks in locating to these venues outweigh the rewards. Political, legal and regulatory risks are currently significantly lower in Poland, the Czech Republic and the new European countries than in China, as is intellectual property risk.



This leaves Central and Eastern Europe (CEE) as the hotspot. Following the accession of the ten CEE countries to the EU in 2004, a growing number of companies have been looking east as a natural choice of location for establishing or optimising an existing shared service location. A decade earlier, western businesses had started migrating some of their functions eastwards lured by geographical proximity, availability of highly skilled and very motivated resources whose services could be procured at a fraction of the cost of their western counterparts – employees in Hungary and the Czech Republic earn a quarter of similarly skilled employees in Western Europe, while Slovakia's pay equates to only a fifth, according to statistical agency Eurostat. Budapest and Prague led the way and by the early two thousands a number of well-known businesses had established a presence in the two capitals. As new regulatory and legal frameworks were put in place following the 2004 accessions, more companies are re-evaluating their options, on the basis of a perceived smaller exposure to risk. Since Bulgaria and Romania's admission to the EU in January 2007, investors have had the benefits of

greater choice, tempered by increased complexity as far as the dynamics in the region are concerned. Companies should be aware that moving to hotspot locations may result in high competition for resources and see wage differentials being eroded as salary inflation matches demand for skills. Typically moving just outside of the major centres can generate better savings and labour costs.

This is not to say however, that CEE is the only realistic choice. Companies have to examine and score the location decisions against a set of factors that are applicable to their business, risk profile and strategic plans. Companies should take a portfolio approach to their decisions, analysing a variety of locations and carefully considering all the factors that make up each location's unique business opportunities and challenges. The right weighting has to be given to each of these factors. Many factors can be objectively measured on the basis of publicly available information although obtaining recent and reliable information on important factors such as labour costs can be a time consuming process that often requires a great deal of primary research.

Applying the right weighting to each decision is entirely subjective and will differ from business to business.

The big picture

Before deciding on a specific location for an SSC, there are a number of over-arching factors that will need to be taken into account. Corporate social responsibility is gaining an increasing profile and management may have to decide whether the choice of location will have an impact on the corporate image of the organisation – perceptions of exploitation of workers in poor countries, for example. Similarly, significant headcount reductions in developed markets may have a negative impact on the organisation's image.

Companies also need to consider the scope of activities and geographical coverage of the SSC. Whether it is in-house or third party will have a significant bearing on the choice of location.

Third parties often use an off-shoring model with a combination of near-shore operations complimented with off-shoring to secondary countries such as India, China and the Philippines.

There is also the issue of time zones and the constraints that regional SSCs place in this regard. Management may prefer the proximity of a new SSC to be relatively close to the organisation's head or regional office or to existing locations. Whether the centre will be back-office focused or will involve interaction with trading partners may equally influence the decision, especially if there is a concentration of customers or suppliers in a specific country or region. Some organisations, especially Business Process Outsourcing (BPO) service providers, are adopting a "follow the customer" strategy by establishing operations in new locations shortly after key customers have done so.

Once these considerations have been taken into account, our firms' experience shows that there are four major factors that should be considered when considering an SSC location.

1) Macro business environment

Companies will want to consider the strength, stability, and approachability of the current government. Is the country politically secure or is there a sense of unrest and instability? A look at the inflation and interest rates would be a good measure. Is the country dogged by fraud and corruption or is there any risk to security or terrorism threats? What is the quality of life like for its citizens – what, for example, is the GDP per capita? How good is the education system? If there is a shortage of schools or the standard of education is poor, there may be a limited pool of talent to staff the centre.

When comparing locations, the *World Bank Ease of Doing Business* ranking of 155 countries, places all Central and Eastern European countries before India, China, Greece and Turkey, with Estonia and Lithuania coming 15th and 16th, high above Spain, Italy and Portugal. All CEE countries are perceived to be lower risk (both in terms of security and terrorism) and the economic data indicates relatively stable economies with unemployment in the single digits. The rest of Europe is perceived as a safer bet in terms of fraud and corruption (according to Transparency International Index of Corruption Perception), with India and China considered to pose the greatest risk.

2) Cost, government incentives, tax structure and employment laws

Conscious of the advantages that inward investment will bring, governments in potential shared services locations are offering tax and other incentives that will need to be assessed. These range from investment and training grants to corporate tax incentives and tax holidays that are all aimed at providing a more favourable operating environment post SSC set up. This is particularly true in the CEE countries. While clearly attractive, it is also worth bearing in mind the tie-in period usually attached to such incentives. Similarly, while considering the most favourable location

in terms of cost per square metre per month for premises, it is important to consider any lock-in period. Local employment is clearly an important factor. Companies will want to look at local unemployment rates, the average salary costs for different levels of staff, labour turnover (and the cost of making employees redundant) and wage inflation. Also, how large is the potential pool – what is the population within the commuter zone and how many other SSC operations are already in existence?

It is the cost advantage that heralded the popularity of CEE as a location of choice a decade ago. As the labour arbitrage narrowed the cost gap between the CEE countries and their western counterparts, a series of governmental initiatives and incentives were launched so that these countries could still present an attractive choice to foreign investors. These incentives differ significantly from country to country and may take different forms in various regions of India and China, making it important to thoroughly evaluate incentive opportunities when comparing location alternatives. However, from KPMG findings, the social costs in CEE countries are higher than the rest of Europe at about 30 percent.

3) Languages, skills and working practices

These factors tend to bear the highest weighting when various locations are compared for a choice of SSC. Here, companies will primarily want to assess the number of students and graduates and where they are based, also the percentage of the population that is English speaking as well as the availability of individuals speaking other relevant languages or possessing the specific academic or professional qualifications required for the SSC. They will also want to look at the less tangible, but equally important area of motivation, retention, development and cultural fit. By their nature, it is difficult to attach a concrete monetary value to these factors, but for companies that are operating across many European countries, they are crucial for the successful operation of the SSC.

Companies that have language as an undeniable requirement are finding that it is easier to establish and source these skills in CEE than in the Far East destinations of India and China – certainly in large numbers. The governments in these areas are however currently pouring funds into the development of these skills so that ultimately, over time, they will be less of a factor in the location debate.

4) Infrastructure

This includes both the quality of transport and telecoms infrastructure, particularly IT resilience and security. In addition, the availability of premises should be considered and the flexibility to expand, together with consideration of the buy versus let debate. The number of international flights per week could be important for example, if many key executives intend to visit regularly. The availability of well known and reliable business partners, such as banks, recruitment agencies, insurance companies and accounting firms, will also be key.

The weighting of these factors can be different for each company and can depend on their strategic aspirations, resource constraints and attitudes to risk. KPMG firms have worked with many companies in the development of the business case for shared services projects and we often find that in general, when scoring the options available from various locations, we most commonly see the following weighting applied:

Macro business environment	20 percent
Cost of operations etc	20 percent
Skills and Languages	45 percent
Infrastructure	15 percent

Case studies

Case Study 1 - A leading global FMCG Organisation

For this leading global FMCG, locating their shared service centres (SSC) operations in Budapest is a resounding success story and a model for other companies wanting to locate in Central and Eastern Europe. Not only has the SSC delivered efficiency and effectiveness improvements across key back office processes and functions but has also made savings of over 10 million Euro in operation costs and liberated over 100 million Euro in cash.

Background/problem statement

The company's journey to success was by necessity a challenging one. "Before the European SSC, the company had four locations providing financial services in Europe" explains the Managing Director (MD). "But the problem was, the key processes and systems weren't really standardised or shared and thus service levels could be vastly improved in certain areas"

The company's legacy of back office infrastructure was, in many ways, typical of how companies were thinking in the late 90s. Many organisations commonly viewed mass consolidation of key processes into one location as risky. "The thinking was 'lets mitigate risk starting with a small business unit- get that right - and then migrate other small business units'", explains the MD. "The problem with this was that five years down the road a so-called European Shared Service Centre would have only a small number of business units. It simply couldn't gain scale..."

A key issue for the company – whose core strength is marketing its brands – is that many brands came via the acquisition of another company, each with its own systems and processes. This led to enormous complexity. Even with a simple process like purchase to pay, small differences across a large number of business units around the world could add up to increased and unnecessary complexity leading to higher operating costs, slower reaction time and less flexibility. For this reason the standardisation of systems and processes are essential to realise the value proposition underpinning the Shared Services concept.

Approach and solution

In 2000 the company took a strategic decision that if it was going to succeed as a global FMCG player it needed to act as a single global company, eliminating complexity and developing a common way of doing things – "Our way". For the company this meant a common systems platform, business process re-engineering to develop common global processes, and – the icing on the cake – the development of a number of regional shared service centers with continental scale that would support the core business with improved customer service, lower operating costs and

provide a platform for further improvements.

"The company realised that an incrementalist approach was not going to work, and it was decided that what was needed was a major step change," explains the MD. "This decision called for a fair bit of courage and in 2001, to abject shock in some quarters, it was announced that out of 19 potential locations for its new European SSC, the company chose Budapest. Our presence in Hungary was small compared to many other countries - Hungary wasn't even part of the EU so the question was – 'why Budapest?'"

According to the MD the key consideration wasn't as much about labour cost arbitrage as it was about the quality of the new workforce. The talent of the labour pool in Budapest offered very dynamic individuals with excellent language skills and strong education in key fields such as finance.

After quality of people and total operating costs, the third deciding factor was the business environment. This included things such as a stable economy and politics, alignment to the EU as well as economic integration, including things like falling inflation.

Finally, Budapest does very well in terms of property and physical infrastructure - areas in which it is arguably way ahead of, for example, India today.

Success factors

In setting up the SSC many challenges were met on the road to success. In choosing a bold strategy the company had to deal not only with the simultaneous introduction of a new ERP system, new global processes, a new SSC in a new location but also - and this is where the step change lies - the decision to migrate the biggest European businesses first! Failure was not an option.

To understand how these challenges were met it is best to view the development of the SSC in three phases. Initially, the highest priority for the organisation was "Consolidation & Transformation" - putting the business units covered within the original four centers into one location in Budapest. Not an easy task given the boldness of the approach. Taking place over three years from 2001 to 2004, this delivered a significant element of the cost savings expected from the original business case.

In the second phase, starting in 2004, quality became the key success factor. The quality of the people and the organisation allowed the SSC to expand beyond its original mandate, building further on a solid platform of speed and flexibility, to implement "3S" - more Scale, more Scope, with Speed. Scale was achieved by covering business units beyond Europe. Achieving increased scope requires constantly moving beyond transactional processes to perform activities that are often considered to be the core competencies or sources of competitive advantage for a finance function such as financial planning, treasury, and tax.

From 2006 the SSC entered its third phase. Although the scale of transaction processing continues to grow through the addition of new business units, this is increasingly offset by a focus on efficiency and in the future, outsourcing of the lower risk activities. The SSC's accountabilities continue to grow too. Having established a strong track record of performance and particularly in the control environment, the transfer of further 'high risk' activities is continuing including those related to transfer pricing, tax compliance, outsource governance and statutory reporting.

Over the next two years the SSC intends to become the obvious choice for all functional solutions in the company.

One key aspect to successfully moving through each stage is leadership buy-in. The success of the SSC is very much dependent on executive endorsement at the Board level and requires on going communication during each phase of implementation.

Another key success factor is dedicated resources with a high level of focus and commitment. This is best exemplified by one of the descriptors in the company's SSC vision: "businesses will be queuing at our door to migrate to our platforms and people queuing to be part of our community."

The SSC must constantly assess whether it is liberating its partners in business unit to focus on their core business of understanding their consumers and customers and outperforming the competition.

Results

If success is measured in relation to expectations than perhaps the SSC's success is best characterised as exceeding expectations.

So far, with over 28 business units served, the SSC continues to move from strength to strength. Just three years into its life, the company decided to change its initial shared services strategy and - instead of replicating the SSC's success on various contents - consolidate as much as possible into Budapest, and with speed.

This new expansion strategy meant servicing new business units from Budapest such as North America and Australia; going well beyond conventional transactional processing and moving into the areas of finance activity that are the basis of a company's competitive advantage such as Financial Planning & Reporting, Treasury and elements of business performance management.

Key successes at the company include:

- Freeing up GBP 77 million in cash flow by continuously reducing Days of Sales Outstanding (DSO) by 20 percent in the order-to-cash process
- Achieving 90 percent on time payments in the purchase-to-pay process leading to better relations with suppliers and ultimately better credit terms
- Reducing the record-to-report process from nine days down to three leading to an annual tax saving of GBP 7 million
- Achieving 98 percent on time processing in the data maintenance process.

Case Study 2 - Global Business Process Service Provider

Another CEE success story – also in Hungary – is a global business process service provider. In Hungary since 1991, the company has a sixteen-year track record of successful operations. Through a broad range of services across a wide client base, the company is present in almost every market segment with a special focus on the financial and telecommunications industries.

The company is working towards a 'Paperless Office' vision using automated processes and imaging services

The company offers its clients a broad range of services across multiple industries by drawing on its global operations as well as process and industry expertise. Since 2000, the company has been Hungary's market-leading supplier of not only information technology, but also business process outsourcing (BPO) services.

An essential component of the company's Global Delivery Model for ensuring high-quality, cost-competitive services to clients is using the optimal mix of onshore, near-shore and offshore resources.

In 2003 the company went through its own transformation of the Finance Function, building a strategic near-shore Finance and Accounting Shared Service Centre in 2004.

Because of the company's core business of offering BPO services to clients the approach was somewhat different than a typical internal shared

service operation (SSO). BPO Delivery uses people, processes, technology, facilities, and a strong knowledge base to deliver services to clients. At the company it is common practice to collaborate with other organisations to deliver the service excellence they are known for and that's exactly what BPO Delivery does.

The key goal for the company's SSO is to be "best-in-class" by clearly achieving cost and quality through successfully leveraging common systems and standardised processes. But what makes the company approach different is the need for better control and scalability. From a control perspective the company is looking for a single point of convergence for key processes. This enables fewer control points leading to fewer defects.



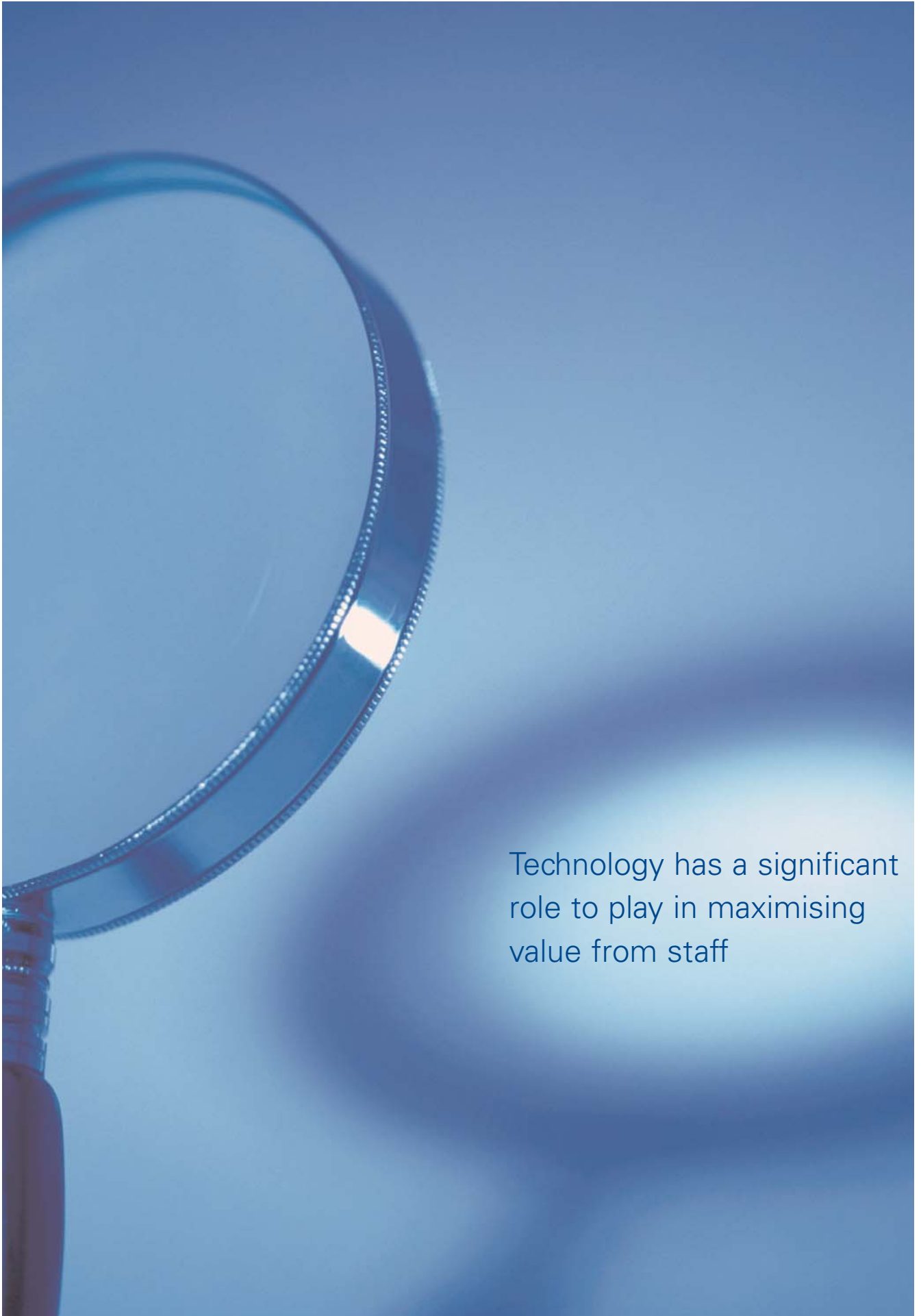
Perhaps even more important is the capability to easily and effectively conduct Sarbanes Oxley reviews both for itself and potentially for clients. Ultimately, since the company intends to serve clients from this site, scalability is critical. The company will also have its own growth to contend with.

Currently the company serves 18 European locations plus Israel and Canada and provides six key processes: record-to-report, purchase-to-pay, order-to-cash, assets and inventory management, travel expenses, order processing and banking.

The company is working towards a 'Paperless Office' vision using automated processes and imaging services. The centre is ISO 9001:2000 certified and successfully completed the 2004 Sarbanes-Oxley audit. A Business Continuity Plan is used to ensure uninterrupted service for our

customers. The company is managing its operations based on their own Active Operations Management philosophy, and its people based on its Performance Management Program.

BPO's commitment to create a Lean Six Sigma culture of continuous improvement is tightly integrated with the goals of the Enterprise to drive world class performance in quality, cost, and delivery.

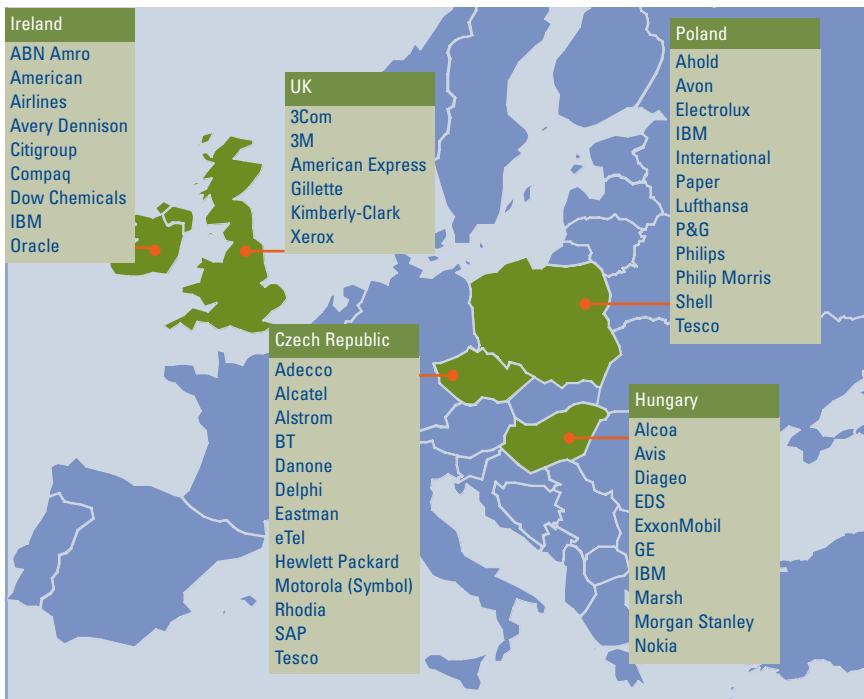


Technology has a significant
role to play in maximising
value from staff

Insight – What KPMG firms are seeing

Cost reduction, alongside rationalisation of IT and a wish to implement global processes, is almost always an initial driver for companies taking the shared services route, and plays a significant role in mapping out the business case. The optimal shared service IT solution is the establishment of a single global system running processes from a single centre, with the consequent benefits that this will bring in terms of cost, control and efficiency. This however, requires a major investment and major transformation programme, which some companies are reluctant to take on in one go. Shared Services is a journey, on which different companies choose to embark in different ways.

Example of SSC locations in Central and Eastern Europe



Some shared services retain disparate systems at first, taking the quick and easy win of cost reduction (30-40 percent labour charges according to KPMG findings) and will follow up with systems changes later. This is complex and not as efficient as trying to standardise, but a first step nonetheless.

Others standardise systems running in each of their countries and then move to shared services, again a much longer path, but each company will have its own idea of how best to proceed, and how much risk and expenditure it is prepared to take on at any one time.

Cost reduction undoubtedly continues to play its part in the ongoing shared service strategy of a company. For the reasons mentioned above, companies that have set up a shared service centre in the UK and reaped the cost benefits of that standardisation are now considering offshore shared service centres. There are significant savings to be made as a result of lower wages in the eastern European countries, with increasingly less business risk. The accession of more countries to the EU has increased political and economic stability within the region and there is a greater perception of the suitability of the newly acceded countries as operating sites. Those with an existing SSC in the UK could realise a 20-40 percent cost saving by moving offshore according to KPMG findings – despite



Source: KPMG in the UK

the fact that they have already benefited from cost savings through standardisation of processes and systems. This would combine with the potential inward investment grants for large projects awarded in some of these locations.

Building talent

The debate that those companies in this more advanced state are having is how best to maximise the value from their shared service centres. Focus is moving from an emphasis on cost reduction to value extraction. When organisations first establish an SSC, it is with a view to the centre dealing with basic transaction processing like invoice processing. The centre is a new venture, the staff are untested, and there is generally little risk appetite for anything other than the more routine tasks and processes to be centralised. However, once the centre is up and running, there is a growing perception that in fact they have a very skilled workforce who are wasted on the repetitive tasks they undertake. They see that the low value activities could be offshored further, with the shared service centre managing the process, and the very good skills in the SSC could take it up to the next level in the value chain. The staff, a high percentage of whom will be graduates and multilingual, could be used to do more financial accounting and reporting, more analysis work, and possibly even tax work. Companies are now offering high levels of training – higher than would be expected from traditional companies – and staff are encouraged to gain accounting and other qualifications, such as ACCA in Europe.

Now, more and more companies, are switching to the higher end of accounting report presentation and financial accounts.

Technology has a significant role to play in maximising value from staff. Take accounts payable and invoice processing. Traditionally, a supplier sends an invoice and the information is keyed into the computer system. With the advent of scanning and character recognition technology (OCR), the computer can now recognise key fields such as total VAT, and a VAT registration number, meaning that the invoice can be processed almost entirely automatically. Companies can move through to lights out processing, where a pile of invoices come in, are put into the automated system, and are posted into accounts with no manual intervention whatsoever. When high volumes of transactions are being processed in one place, companies can use technologies – the cost of which couldn't be justified in individual operating centres. This in turn means they are able to develop the potential within their staff.

The role of the CFO

There will however, always be constraints on the amount and type of work that can be outsourced – the constraints attached by the CFOs and FDs themselves. What KPMG firms are witnessing is that many finance directors prefer to keep a tighter control of their operations than outsourcing would permit. This is true of all CFOs regardless of where they sit on the shared services map. There has been little take-up so far of financial processes outsourcing. While

companies are happy to outsource payroll, IT and call centres, financial processing remains a step behind as CFOs and finance directors prefer to keep sensitive operations directly within their sphere of control.

For CFOs, the move to shared services may represent a vast cultural change. Prior to the establishment of a unified centre, individual regional offices, obviously within budgetary constraints, will have had free reign to run their own operations, to choose their own software, and to do their own hiring and firing. With shared services, these processes are dispatched to a central location, in what can be a huge change to an FD's day-to-day operation. Software is controlled centrally, and the FD is forced to adopt global processes, which can be a huge sea change in approach, and a challenge that companies need to tackle appropriately.

However, few could argue with the advantages of a centralised function when it comes to Sarbanes Oxley. This has put an increased focus on internal controls, segregation of duties and fraud prevention. Acting independently of operating companies, and therefore free from influence, SSCs can be a very good method of providing stronger controls, following a rigid and global set of processes that are applied even-handedly across all of the group's companies.

Ever east

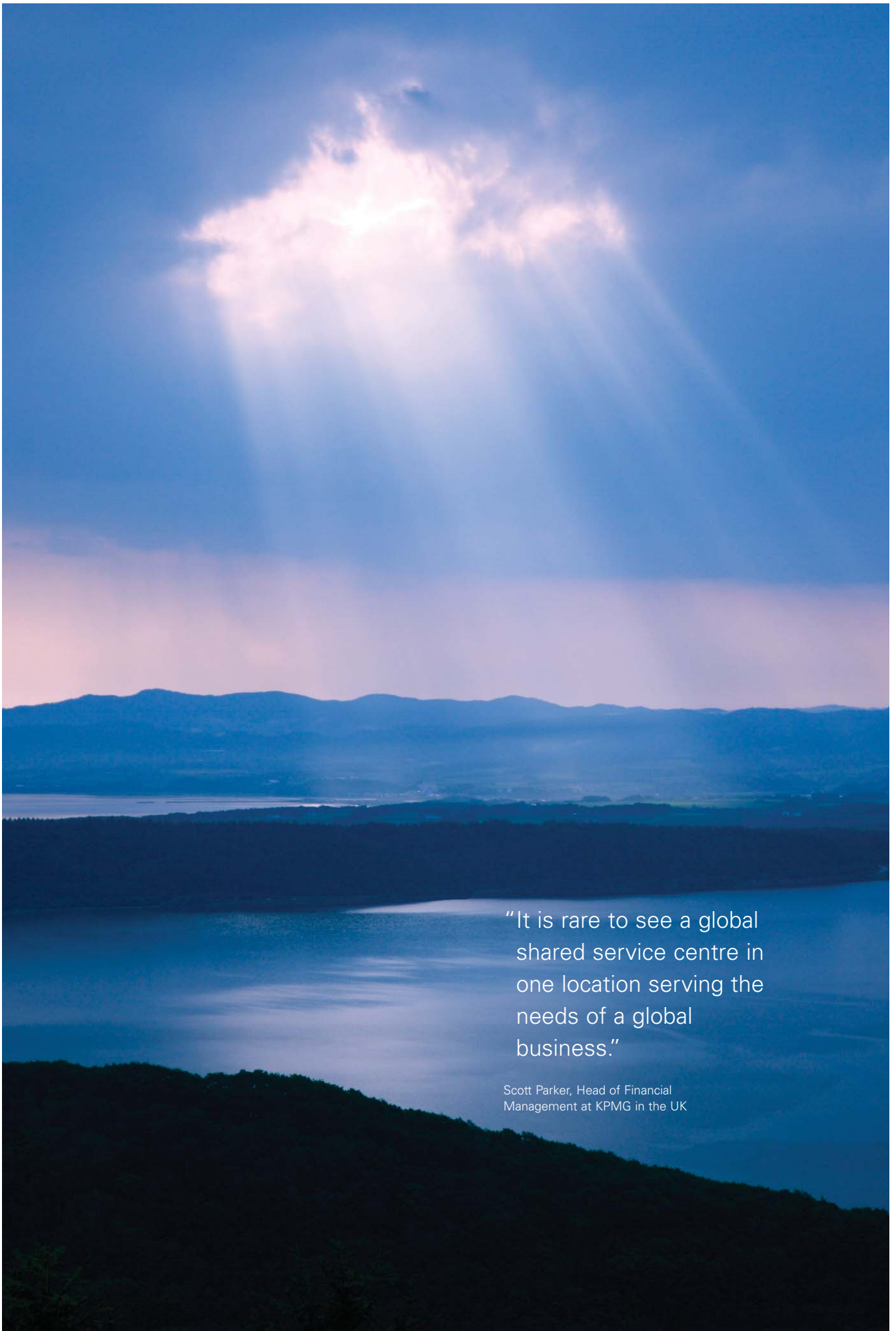
Many eastern European destinations have in fact now become victims of their own success. Ten years ago, for example, Prague was highly desirable, with a good pool of talented graduates, low wage costs, solid infrastructure, and good investment incentives. However, the number of SSCs that have set up on the back of these benefits mean that salary levels have risen significantly as companies compete for the same labour pool. There is also a sense that the staff, despite, or possibly because of, the training and qualifications they are receiving, are seeing the potential for more lucrative and challenging work elsewhere, and attrition levels are on the rise. Hence the increasing attractiveness of Poland, where there are still relatively few shared services centres, and a larger population than Czech Republic or Hungary, which are both already well-established, with high numbers of graduates. Yet already

in some parts of Poland there is a six month waiting list for suitable office properties and rates have more than doubled in two years. As the reservoir of capable labour in Central Europe dries up, and prices continue to rise, companies are looking as far east as Ukraine.

Companies seem to move in clusters. Locations are discovered, companies move, the market becomes saturated and companies move on. According to Andreas Dressler, there is no reason to doubt that history will repeat itself in the next wave of moves further east. This may have a bearing on companies taking a longer-term perspective and thinking of their options in five to ten years rather than three to five. "How will Romania look in ten years?" he asks. "First mover advantage may be suitable for those companies that can afford to take more risk, especially for volume businesses, but not for those

looking for a more sustainable option." The Czech Republic, Hungary, and Slovakia are established concepts. Unemployment rates may be low now, but there will be more graduates coming through. "It is very possible that western European countries will again start to look attractive, because of the quality they can provide and the diminishing cost differential. Benelux, Spain, and parts of Germany which are currently frequently overlooked may yet enter the fray once more," states Dressler.





“It is rare to see a global shared service centre in one location serving the needs of a global business.”

Scott Parker, Head of Financial Management at KPMG in the UK

The future

It can take up to six months to choose the right location, given the complexity of the decision. Implementation varies from 18-24 months. And after five years, the initial processes should have proved successful and the company can now migrate new, higher value types of work.

SSCs are now looking at an even greater scope than before. Processes have stretched beyond accounts payable or transactions processing. The general view is that "we can put in shared services to make a difference". And that means finding a higher skill set – more people familiar with US GAAP or IFRS reporting requirements, to meet the requirements of large multinationals. Consequently the CEE countries have performed well, with their ability to provide both language skills, and a large pool of accountants qualified to international standards. Similarly, there has been big growth in Manila and the Philippines in general for US shared services, because of the number of people familiar with US processes and trained for US accounting qualifications. In the future, business can expect to see increasing sophistication and refinement in each of these markets.

Where might the SSCs of the future be based? A good indicator is to watch movements within the manufacturing industry, which is generally one or two years ahead of the services industry. They were first into Budapest and Prague, and then Krakow. Again they have been the first into Romania and Bucharest.

For shared services, the trend to move ever eastwards continues, as the hotspots of today, where competition for skilled staff is raising salary expectations, become less marketable as low cost operations.

EU accession has opened up more potentially suitable locations.

In Europe, the next frontier may well be Bulgaria or Romania, although at present, both countries are less sophisticated with poor infrastructure. There are some enterprises exploring Latvia and Estonia but they are small centres, relatively expensive and again the infrastructure is not that developed.

South Africa is starting to rise in popularity. Instability in the infrastructure had meant that it had been ignored in globalisation attempts. However, while doubts remain over political stability, its telecoms infrastructure is now far more robust, allowing secure transfer of data. Labour constraints exist (as there is a greater choice of jobs for skilled graduates), limiting it to less technical operations, and offering fewer cost advantages, but it is very convenient in terms of time zone.

However, one centre for all global activity is unlikely to become a reality. A company making a global assessment might well continue to think of a portfolio system, with a global centre in India providing a handful of processes. Scott Parker, Head of Financial Management at KPMG in the UK commented, "It is rare to see a global shared service centre in one location serving the needs of a global business. Those businesses that truly run themselves on a global scale can do it - but more often than not a regional model is more effective in balancing cost, effectiveness, language and time zone considerations."

The technology driver

The exponential leaps forward in technology will bring about the next sea change. Shared services are now able to perform much better as a result of massive leaps in technology. Some companies have excelled at capitalising on the ability to automate transactional work and ensure the shared service is adding value.

“The explosion of the internet, wide area networks, wireless connectivity, and workflow that actually works, have all combined to make the location of an office less and less relevant,” states Marieanne Newton, a Director at KPMG in the UK. “In time, this could mean that rather than looking at locations, we will look at different operating models – and that will really dictate the locations that will come into play.” The level of automation that exists around standard transaction processing means that so few people are involved that it has become less and less important where it operates.

“Five years from now, the amount of electronic trading should be so high that location will become almost irrelevant. The “your mess for less” scenario, by which administrative problems are farmed out to economies with a cheaper labour force will

diminish over time,” she continues. “As you apply technologies to shared services and drive down the headcount, the benefit of moving to lower cost locations decreases. But that is a very long term view.”

Similarly long term is the notion of how far the model can be developed in terms of virtual organisations which work together in an open network environment. As Tom Bangemann says, “How you utilise knowledge across the network will continue to develop and what is internal or external won’t really matter. Eventually, total automation will mean that you will need the people, but they won’t need to be consolidated in the same place. In this virtual future, people could sit wherever they want to and run everything through automated workflow. In terms of a timeline, I don’t expect to see that in my lifetime.”

We are still some way from sorting out process compliance issues. While technology takes a lot of the manual processing out of the equation, there are other manual transactions, such as allocating cash onto customers’ accounts, where no real technology currently exists, so there is still a role for outsourcing. But as these types of issues are addressed, business may be looking at a very different shared services set up.

Five years from now, the amount of electronic trading should be so high that location will become almost irrelevant.

Conclusion



Shared Services is a journey, and those companies that embarked down the shared services route 20 years ago are still not at the end point. Once the initial benefits from standardisation have been realised, companies are looking for further cost reductions and to maximise their returns in other ways. Whether you are just contemplating your first steps, or assessing your five year plan, the choice of suitable locations will be just as relevant.

KPMG firms have an established history of effective location analysis. We have a specialist group based in our German firm working with companies looking for locations for SSCs and for industrial purposes. We have experience in finding what the drivers are for our firms' clients, the particular factors that would influence a location decision. Choosing a location is an extremely time-consuming process, which demands a lot of resources. There is a wealth

of publicly available information to help frame the location decision, but to be done properly, it is reliable and relevant information that needs to be found. Most importantly, a decision needs to be made that will be accepted and supported by all parties. As an independent and objective organisation with years of experience in location sourcing, KPMG's global network of member firms can help you deal with these challenges.

Editorial Team

Mark Bownas

Partner
KPMG Central and Eastern Europe
Tel: +36 (1) 887 7122
e-Mail: mark.bownas@kpmg.hu

Andreas Dressler

Director - Global Location
& Expansion Services
KPMG in Germany
Tel: +49 69 9587 3407
e-Mail: adressler@kpmg.de

Andy Macdonald

Principal Advisor
KPMG in UK
Tel: +44 (0)207 311 4447
Mob: +44 (0)7785 267 675
e-Mail: andrew.macdonald@kpmg.co.uk

European contacts

Guillaume des Rotours

Partner
KPMG in France
Tel: +33 1 55 68 75 29
e-Mail: gdesrotours@kpmg.com

Jochen R Pampel

Partner
KPMG in Germany
Tel: +49 40 32 015 55 50
e-Mail: jpampel@kpmg.com

Peter Kiss

Partner
KPMG Central and Eastern Europe
Tel: +36 1887 7384
e-Mail: peter.kiss@kpmg.hu

Franco Perone

Partner
KPMG in Italy
Tel: +39 34 82 70 88 49
e-Mail: fperone@kpmg.it

Gaston Vankan

Partner
KPMG in the Netherlands
Tel: +31 20 656 8075
e-Mail: vankan.gaston@kpmg.nl

Scott Parker

Partner
KPMG in the UK
Tel: +44 20 7311 8895
e-Mail: scott.parker@kpmg.co.uk

Or your local KPMG contact

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Designed and produced by KPMG LLP (UK)'s Design Services

Publication name: Location location location

Publication number: 307-128

Publication date: May 2007

Printed on recycled material.