The story behind the numbers

Research on service centre trends in Central and Eastern Europe

Shared Services and Outsourcing Advisory
Riga, 6 November 2014
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Introduction to our research

KPMG Shared Services Services and Outsourcing Advisory (SSOA), the Netherlands conducted a service centre research initiative (SSC, ITO and BPO) in the Central and Eastern European (CEE) region during Q2 and Q3 of 2014.

Over 40 conversations were held with managers of captive centres, ITO/BPO delivery centres, country investment agencies.

Why this research?

- Understanding the potential of the CEE region
- Serving increased client interest in the CEE region
- Providing a comprehensive view crossing borders.

Research objectives

- Gather, define and explain the success factors of service centres in the CEE region
- Capture the latest trends and developments
- Provide a future outlook on the Eastern European region as a service centre location

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It’s important to know that...

“This research is not a beauty contest!”
Geographical scope of the research

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th># of centres</th>
<th># of employees</th>
<th>Main location(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>38.5 million</td>
<td>&gt;470</td>
<td>&gt;128,000</td>
<td>Krakow, Warsaw, Wroclaw, Katowice, Lodz, Poznan</td>
</tr>
<tr>
<td>Latvia</td>
<td>2.04 million</td>
<td>36</td>
<td>≈ 4,300</td>
<td>Riga</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7.3 million</td>
<td>&gt;45</td>
<td>&gt;22,000</td>
<td>Sofia</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10.5 million</td>
<td>&gt;200</td>
<td>&gt;50,000</td>
<td>Prague, Brno, Ostrava</td>
</tr>
<tr>
<td>Romania</td>
<td>21.0 million</td>
<td>&gt;80</td>
<td>45,000</td>
<td>Bucharest, Cluj Napoca, Timisoara</td>
</tr>
<tr>
<td>Hungary</td>
<td>10.0 million</td>
<td>≈ 90</td>
<td>≈ 34,000</td>
<td>Budapest</td>
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A selection of companies that cooperated with our research
Five central research themes

1. Selecting the right location
2. Implementing a service centre
3. Managing talent
4. Executing governance
5. Driving evolution
Findings – Selecting the right location

Selecting the right location

- It all starts with the quantitative, but qualitative factors become crucial during the final decision-making process.
- Most service centre managers accorded greater importance to the business environment and availability of talent and language expertise than costs.
- BPO providers continuously assess the situation at alternative locations.
- Government support is appreciated, but not always available.

Quotes:

“"You don’t start a service centre at a location for just a few years, you probably stay there for at least more than 15 years.”

“As captive, you don’t want to be the first to enter into a location.”

“As a new entrant, you don’t want to disrupt the existing service centre industry too significantly.”
Implementing a service centre

- The transition is the key factor for establishing a successful service centre.
- Prerequisites for a successful implementation are robust project management, sufficient investment capabilities, senior management support and involvement of experienced shared service resources.
- Transition trends; phased approaches, lift and then shift, train-the-trainer methodology
- More and more emphasis is being paid to the retained organisation.

Quotes:

- “Transition is KING!”
- “Be persistent, stay in power, and have stamina. Expect to be blamed, but keep going.”
- “For the business itself the continuity of the services is more important than getting cost advantages.”
- “A Big Bang approach is a plan for failure.”
Findings – Managing talent

Managing talent

- Approximately 90 percent of employees in the shared services and outsourcing industry in the CEE region are under 30 and 65 percent of them are female.
- Captive centres and BPO delivery centres are running with an continuous vacancy rate of 3-10 percent.
- Attrition rates at the centres included in the study was 10-25 percent.
- For service centres, succession planning is similar to having a disaster recovery plan.

Quotes:

“Recruiting the right talent isn’t easy, but keeping them on-board is the real challenge.”

“We do not only ask why employees leave, but also why they stay.”

“I start to get worried when our attrition rates get below 10 percent.”
Findings – Executing governance

 Executing governance

- Service centres have implemented similar internal governance structures with strong volumetric measurement and SLA management.
- The average size of supporting staff at CEE service centres is approximately 4-7 percent of the total staff at the centre.
- There is no blueprint for external governance. There are differences in levels of management control across the SSC management, group functions, and the headquarters.
- Trend to move from service level management to performance management.

Quotes:

“"I don’t know how we perform as compared to four years ago, because almost every performance indicator has changed.”

“We don’t speak of SLAs, we use partnership agreements.”
Findings – Driving evolution

Driving evolution

- Continuous improvement should be part of the service centre’s DNA; centres are under constant pressure from customers, business owners and other stakeholders to improve quality and lower operational costs.

- The existing IT environment is a limiting factor in achieving the full improvement potential.

- More complex services are being added to centres when the transactional services are optimised.

- Hybrid models are becoming the new standard.

Quotes:

- “If your shared service centre reaches a steady state situation, that is the beginning of the end.”

- “We could achieve double digit efficiency improvement the IT environment would be rationalised”.

- “If we do not expand functionally or numerically, we are losing ground to the competition.”
# Future outlook of Central and Eastern Europe

## 1. A region to stay - expected growth of at least 10 percent per year for the next five years

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Points of attention</th>
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<tbody>
<tr>
<td>- Globalisation will continue</td>
<td>- Political stability</td>
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<tr>
<td>- Availability of talent and language</td>
<td>- Availability of local middle and senior management</td>
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<tr>
<td>- Accessibility and infrastructure</td>
<td>- Government support</td>
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<td>- Alignment with European culture</td>
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## 2. The rise of global business services

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<th>Characteristics</th>
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<td>- Multifunctional business processes</td>
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<td>- Common information technology</td>
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<tr>
<td>- Multichannel service delivery; outsourcing, shared services and centres of excellence</td>
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<td>- Process ownership and management</td>
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## 3. Greater role of disruptive technologies

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<th>Characteristics</th>
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<td>- integrated IT landscape</td>
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<tr>
<td>- Robotics and cognitive platforms</td>
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Outlook of Riga as a service centre destination

**Positives**
- Positive experiences of existing centres
- Attractive from a cost perspective
- Attractive business environment; tax levels, moderate inflation rates (historical), favourable environment for business
- Government support
- Ideal for greenfield and mid sized service centres

**Points of Attention**
- Size of labour market compared to other CEE locations
- Availability of languages (specifically southern European)
- Availability of local middle and senior management
Questions and wrap up

Questions

Research publication

- Publication available as per January 2015.
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Thank you