Realigning global support-function footprints in a digital world

How can organizations ensure their global services footprints are ready for the new world of digitization, complexity, and uncertainty?

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Over the last two decades, enterprises have advanced their service-operations strategies through increased globalization. Driven by cost pressures and the opportunity to access a global talent pool, an estimated 80 percent of Fortune 500 companies report using some form of a global operating model. Our analysis of employment data for global business-services (GBS) centers around the world suggests that companies are operating about 16,000 GBS centers in more than 100 cities.

The services provided by these centers have steadily increased in complexity. A leading bank, for example, relies on its GBS center in Warsaw to run analysis on the links between customer behavior and propensity to buy new products. An insurer's GBS center develops analytical models to predict the likelihood of catastrophic events and their impact on the company's working capital.

Today, however, we see evidence that the GBS model is at the tipping point of a major transformation. We estimate that automation and digitization could affect around 1.5 million services jobs in the coming years. In a context of rising geopolitical uncertainty, this shift is forcing organizations to rethink their location footprints and talent strategies.

Those decisions are getting harder. Picking the best combination of locations already requires companies to consider multiple variables (including cost, local talent pool, proximity to customers, and regulatory environment). Now they must also predict the outcomes of a digital transformation that is still underway.

More ways to pick the wrong location
Global operating models have always been hard to get right. Our research indicates that nearly one in three GBS projects fail to realize their initial business case. A large part of the value erosion is attributed to incorrect choice or configuration of locations, and of the subsequent talent strategy.

Location decisions, once committed to, are expensive to reverse. They also result in significant operational challenges, including inconsistent service due to high staff attrition, or an inability to scale up to meet demand. A large analytics firm was forced to look for a new location within three years of starting operation, as it found that the original GBS location could not supply the required talent on a sustained basis.

Many companies are realizing that their existing footprints and current location strategies are an inadequate fit for the operational requirements of tomorrow. Specifically, companies are facing four principal challenges:

Sites operating in silos. Many companies have expanded their GBS footprint incrementally, with no overarching location strategy. Others operate in a federated manner with each business unit driving location decisions independently. Either way, the result can be a siloed structure with poor inter-site coordination. One global bank operated multiple regional and global service hubs, each with its own performance management culture. That led to significant variation in employee productivity and customer experience.

Escalating competition for talent. Digital technologies such as automation and advanced analytics are changing the nature of the talent required by GBS centers. In a recent survey of executives, nearly 60 percent said it was harder to source talent for data-and-analytics roles than for other positions. Several of the today's most popular GBS center locations are already facing a talent crunch. A financial services company, for example, had to delay its enterprise-wide digital transformation program as it could hire only a third of the required talent pool of data engineers and programmers within the original time frame.

Locations designed for narrow skill-set requirement. Historically, enterprises have made location decisions in the context of specific skill requirements. For instance, they may have required a large entry-level talent pool, or staff with particular language skills for addressing customer queries. The work-complexity mix in these global hubs is rising rapidly, however. In another survey of operations and business executives, two-thirds of respondents said they expect work complexity to significantly increase over the next three years. Increasingly, organizations are looking for talent to drive agile operating models and next-generation skill sets, such as design thinking or the use of advanced analytics. Their current location landscapes may not provide access to the diverse talent pool and peer ecosystem required for these demanding activities.

Excessively long decision cycles. Desperate to make the right choice from a bewildering array of options, companies may find themselves paralyzed by analysis. Or they may hold out in the hope of finding the next "hidden" location in a tier-2 or -3 city that will give them first-mover access to the right talent. Waiting too long can erode much of the potential advantage of such moves, however. A leading insurance firm debated internally on a new location for nearly 18 months, during which the original business case was diluted by about 20 percent.

Addressing the challenges

To weather disruptions from digital technologies and geopolitics, enterprise leaders must look beyond traditional ways of making location decisions. They must integrate disparate locations effectively, find ways to tap into newer digital-savvy talent pools, and enable agile operating models. Specifically, we believe organizations should adopt five design principles to drive location decisions in future:
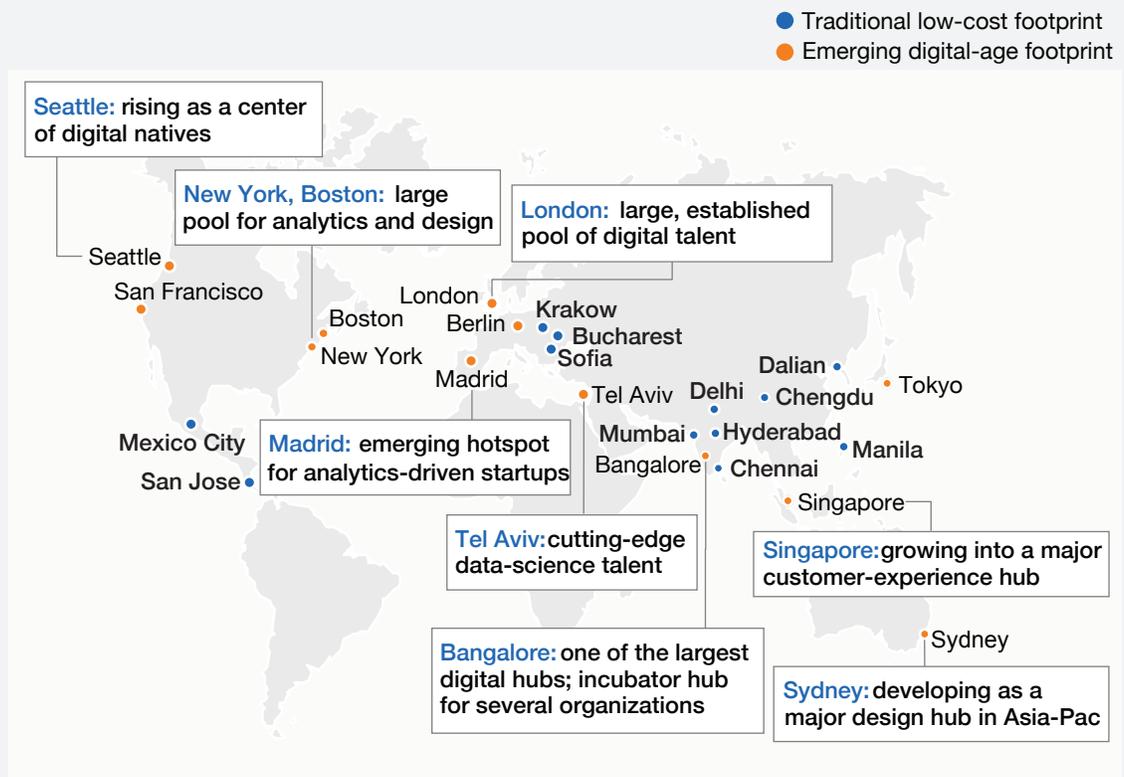
1. *Review and renew location strategy regularly:* The sheer pace of change means companies must become much more nimble in their location-strategy choices. A financial-services company, for instance, continually reviews the impact of internal transformations (e.g., automation and digitization initiatives) that could affect how services are delivered in future. And it reviews external macroeconomic trends every 36 months to ensure that its location architecture remains robust and resilient.

2. *Integrate multiple locations into a network of capability hubs:* Leading companies treat individual GBS centers as components in a larger machine. Such a network will span a range of sizes and specialties, from large-scale transactional centers to small, expertise-driven centers of excellence. Some companies operate regional operating models, with each region hosting a dedicated hub catering to the respective markets. A major retail company operates a network of more than a dozen capability hubs with expertise in fields such as analytics, procurement-cost reduction, and finance. Each site plays a specific role, with its own talent and a distinct customer value proposition. Yet the organization also a common operating framework for performance-management systems, capability-building approaches, and the like, which is consistently deployed across the sites in the network.

3. *Determine talent strategy before location strategy:* Companies can choose to develop the talent they need in-house, or acquire it from the market—and decision that must then feed into the broader location strategy. Mature locations with large industry ecosystems allow for a better "buy" strategy. Emerging locations, on the other hand, tend to rely on a fresh graduate pool and offer better opportunities for a "build" strategy.

In practice, the buy-versus-build question is often a trade-off between cost and time. A leading insurance player decided to build the required talent through an extensive training program. That time commitment meant it could locate the center in a smaller city, where costs were lower and competition for talent less fierce than in the region's major metropolises.

4. *Focus on locations with a digital-savvy talent pool:* Our research suggests that 80 percent of the incremental technology spend over the next five years will likely be on next-generation technologies such as advanced analytics, cloud services, and automation. The required talent to cater to this demand exists in pockets, requiring enterprises to evolve their location strategies accordingly. For example, one major company recently tripled the size of its technology center in Berlin to support projects in areas such as IoT. Similarly, Madrid has emerged as an analytics hotspot, with multiple technology and services companies setting up centers in recent months (exhibit).

Exhibit

A new set of digital-focused talent hubs is emerging.

● Traditional low-cost footprint
● Emerging digital-age footprint

Seattle: rising as a center of digital natives

New York, Boston: large pool for analytics and design

London: large, established pool of digital talent

Seattle
San Francisco
London
Boston
Berlin
Krakow
Bucharest
Sofia
New York
Madrid
Tel Aviv
Delhi
Dalian
Chengdu
Tokyo
Mumbai
Hyderabad
Manila
Mexico City
Bangalore
Chennai
San Jose
Singapore
Sydney

Madrid: emerging hotspot for analytics-driven startups

Tel Aviv: cutting-edge data-science talent

Singapore: growing into a major customer-experience hub

Bangalore: one of the largest digital hubs; incubator hub for several organizations

Sydney: developing as a major design hub in Asia-Pac

SOURCE: McKinsey Digital Locations 360; Expert interviews

5. *Plan for an agile operating model:* The increasing adoption of agile operating models requires enterprises to adapt the design and governance of GBS sites. The traditional approach centering on function-specific teams (such as housing all finance support in one location) must evolve to accommodate cross-functional, self-organizing teams in each location, with finance, analytics, design, and user-interface integration all represented. To work closely with internal customers around the world, these teams may be dispersed across different times zones, rather than concentrated in a single global center.

   Governance to manage such a model must therefore evolve from the traditional transform-and-consolidate approach to one that accommodates continual, iterative change. Such a setup allows access to a larger pool of skilled resources and a quicker time to market with a lower total cost of ownership. A leading bank has created major agile centers in both Poland and India to develop and enhance retail products. This change in governance improved team productivity by 15 to 20 percent, while lowering the overall change cost by 40 percent.

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Service-operations strategies and location decisions must adapt in the face of digital disruption and global uncertainty. To be successful in this environment, enterprises must adapt their location networks more rapidly, integrate them more effectively, and evolve their location strategies to ensure access to the right talent. ■

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