Baltics 101

Opportunities, Threats, Best Practises

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17.11.2014

Rules For Today

Neutral

We are different but we get along

...many say we should actually work more together!

Interactive

The wisdom of the crowd is greater

Q&A as we go

Program

Program

Baltics Overview

Q&A

Group Work

Wrap Up

Deliverables

Information

Best practise

Ideas

Tangible actions

Content

Overview

Industry Perception

Growth Drivers

Triggers

Benefits

Weaknesses

Key Trends

Best Practices

Overview, Region

- **Different sizes and price points**

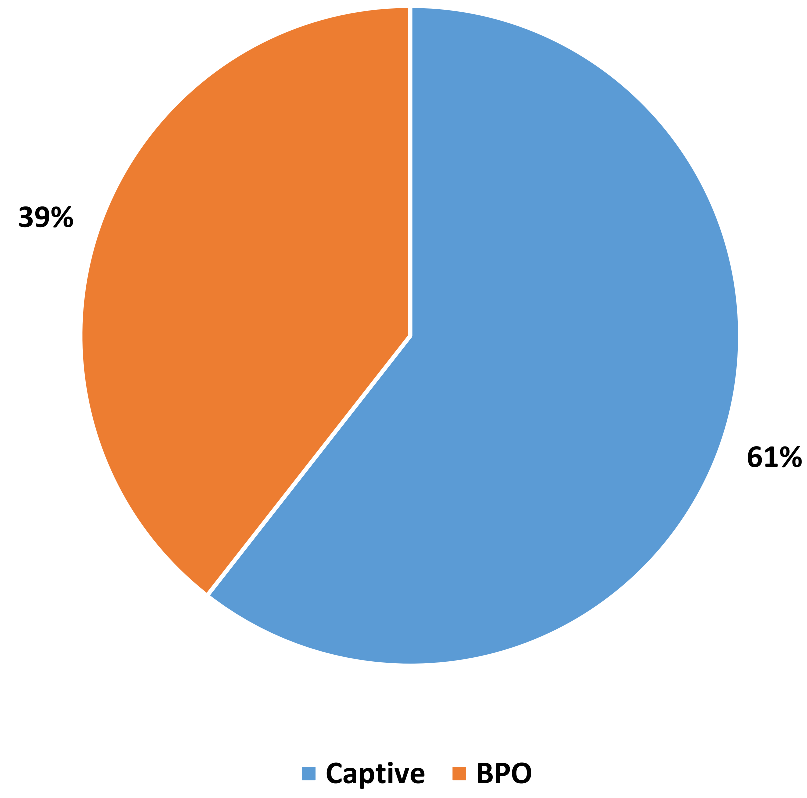
	Estonia	Latvia	Lithuania
Population	1.2m	2.0m	3.0m
GDP Nominal 2014	$24.3bn	$44.4bn	$49.3bn
GDP per Capita 2014	$20,179	$16,138	$16,600
Real GDP Growth 2013	2.2	4.1	3.3
Unemployment current	7% *	10% *	11% *
Financial Assistance	Limited EU funds	EU funds	EU & State funds
Largest centre	300 FTE	425 FTE	1,300 FTE

Source: EAS, LIAA, Invest Lithuania, Eurostat

Overview, Estonia

- **Centres by Delivery Model**

Global: BPO 30:70 Captive
CEE: BPO 38:62 Captive

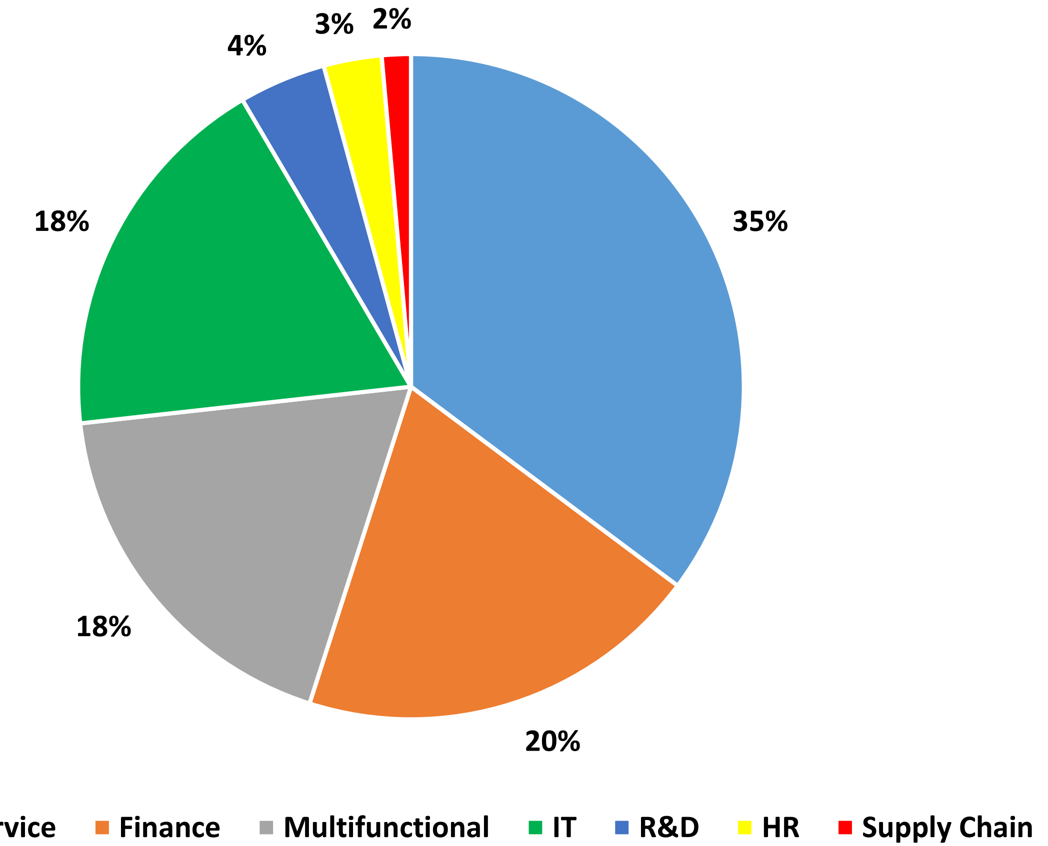


Source: EAS, 14.11.2014

Overview, Estonia

- **Centres by Function**

Multi-functional centres become more common

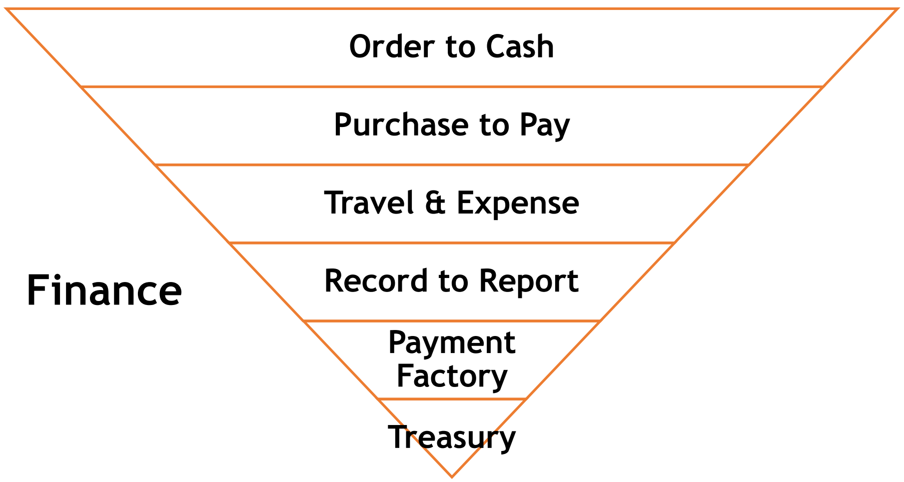


Source: EAS, 14.11.2014

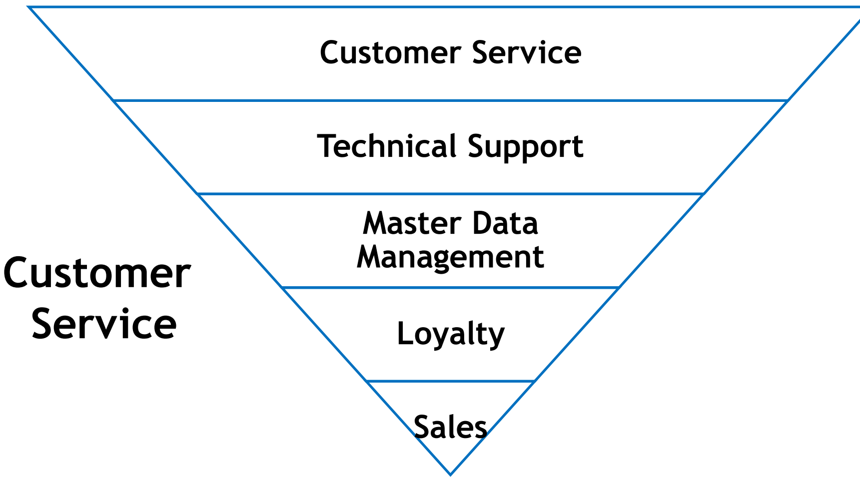
Overview, Estonia

- **Key Tasks per Function**

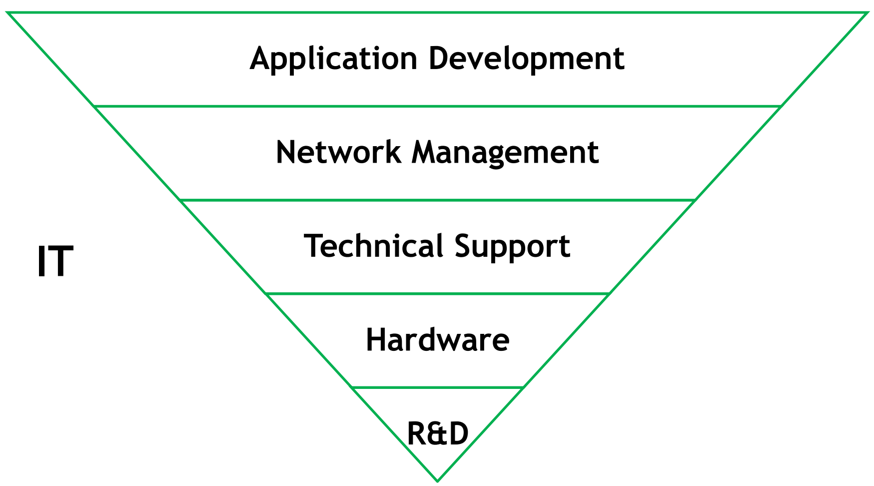
Finance



Customer Service



IT

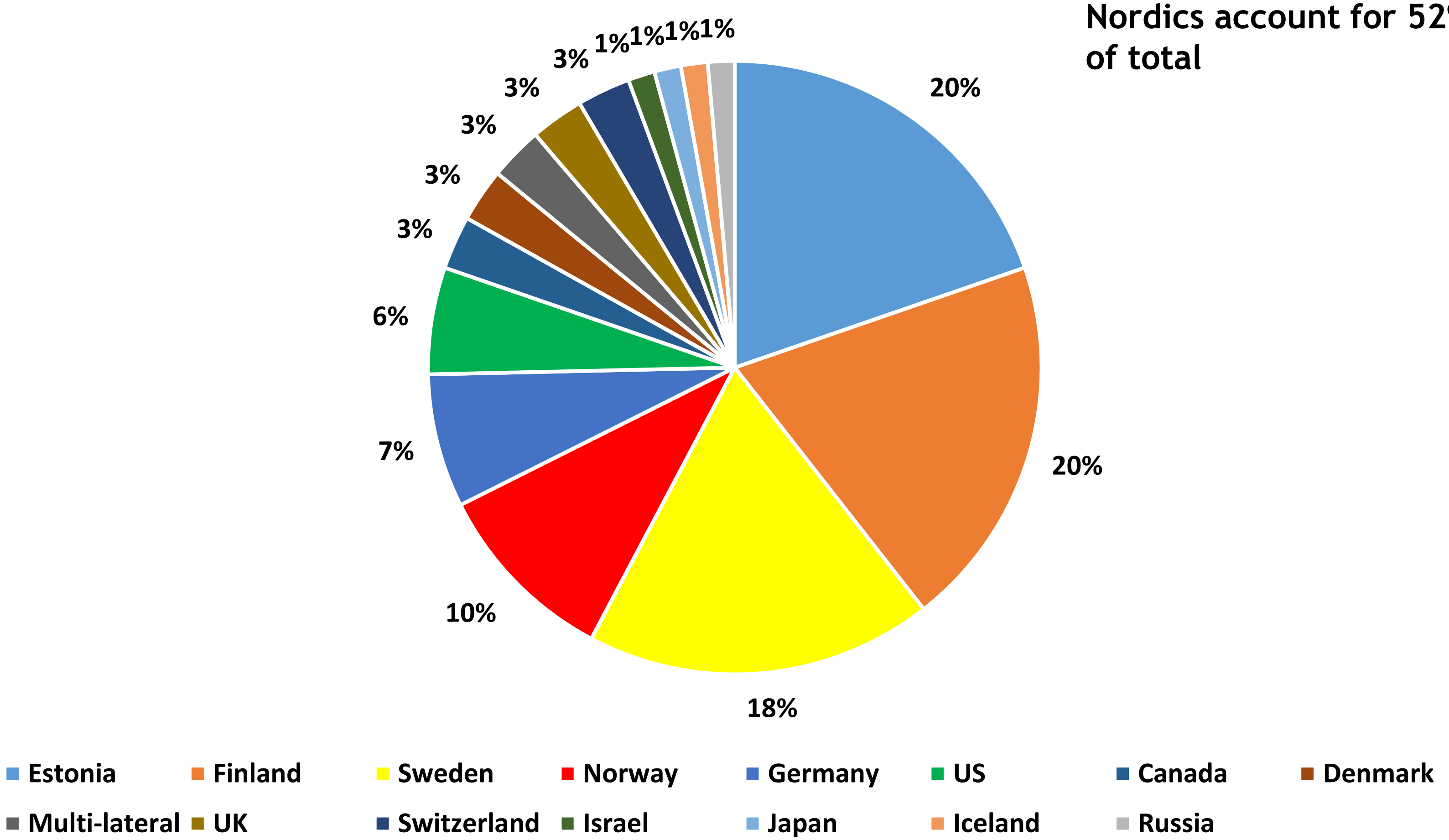


Source: EAS, 14.11.2014

Overview, Estonia

- **Centres by Source Country**

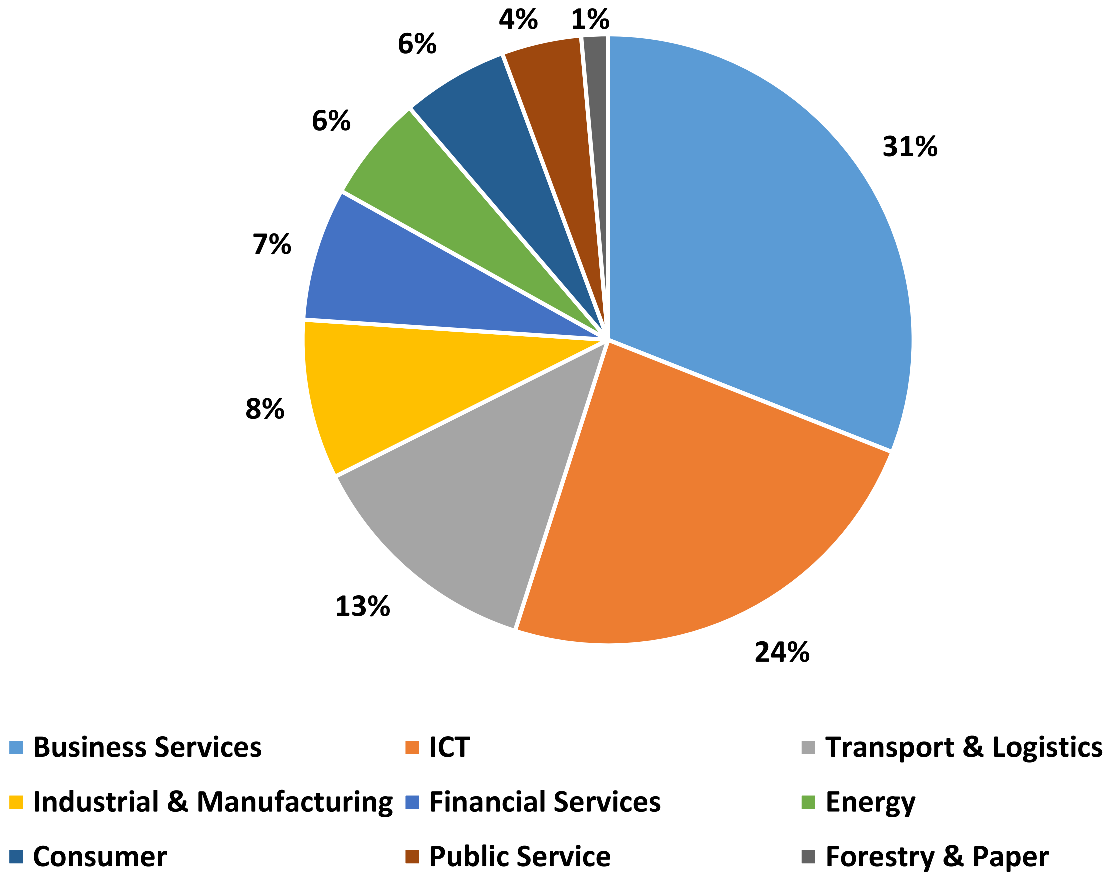
Nordics account for 52% of total



Source: EAS, 14.11.2014

Overview, Estonia

- **Centres by Industry Vertical**



Source: EAS, 14.11.2014

Industry Perception

- **Often off the radar, but well regarded by those who know**

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"Surveyed companies stated that CEE and Asia-Pacific will be the most preferred SSC locations in the future"

ATKearney

Global Services Location Index

	2014	2011	2009	2005	2004
Poland	11	24	38	18	10
Lithuania	15	14	21	n/a	n/a
Estonia	22	11	18	n/a	n/a
Latvia	23	13	22	n/a	n/a

25 criteria grouped into Financial Attractiveness (40% weighting), People Skills & Availability (30%) and Business Environment (30%)

Industry Perception

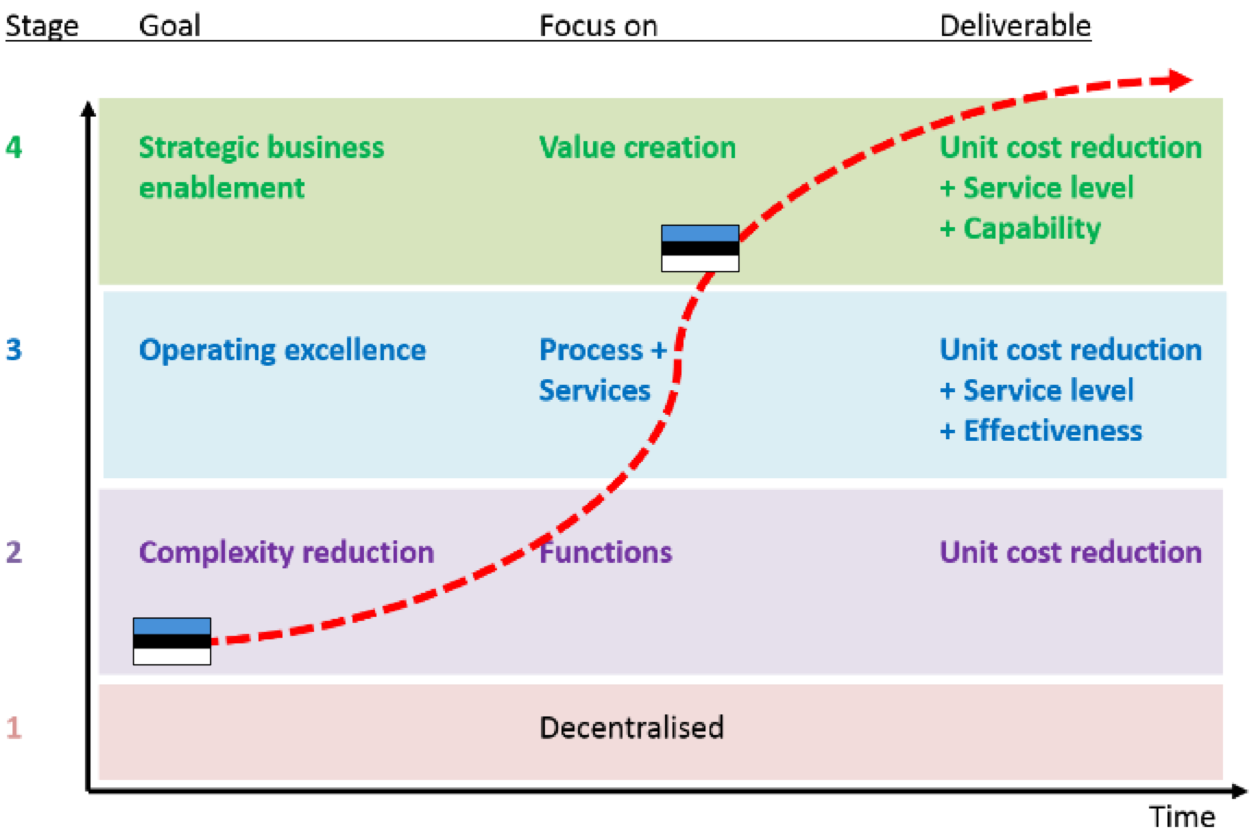
- New investors arrive, existing expand

Estonia	Latvia	Lithuania
ABB	accenture	Swedbank
FINNAIR	CYTEC	BARCLAYS
KONECRANES Lifting Businesses	Statoil Fuel & Retail	storebrand
Orkla	SEB	Callcredit Information Group
ERICSSON	Runway YOUR OUTSOURCING PARTNER	PAROC
Microsoft	Transcom	SEB
KUEHNE+NAGEL	DNB	WESTERN UNION WU
DANPOWER HOMNE ENERGIA	EXIGEN services	ROYAL UNIBREW
HURTIGRUTEN	c:t:co	Danske Bank

- Trusted to manage data, service and solutions by quality firms

Industry Perception

- **Established centres uptier: higher order tasks, multi functional centres, wider geographic remits**



- **…and in some cases BPO at the same time**

Industry Perception

- **Low adoption suggests untapped potential**

HfS

"Although many organisations have some element of Shared Services **overall utilisation is only** 30-50% of that possible in W. Europe and the US, **30% in Nordic** and just 10% among CEE"

Growth Drivers

- **Labour pool is educated, experienced and flexible**

- **Labour pool is IT and language literate**

- **Competitive business environment, specifically no union or government intervention**

- **Cost advantage versus North and Western Europe**

pwc

"SSCs located in the CEE region achieved on average the highest savings on operating cost...the reason could be their optimal balance between labour cost arbitrage and efficient, streamlined processes.

- **Effect of industry critical mass and maturity**

Project Triggers

- **Bottom line pressure**
- **Business transformation (people, IT or processes)**
- **Need for better visibility and control**
- **Need for a common approach and IT platform**
- **Access to talent**

Typical Benefits

- **Bottom line (cost saving, high productivity, high automation)**
- **Shorter management span of control (governance benefit?)**
- **Operational flexibility**
- **Better relationship with operating business**
- **Lower business risk**
- **Process improvement over time**
- **In some cases new IT capabilities**

Weaknesses

- Small labour pools
- Need to work harder at languages, especially Nordic
- Need to work harder on business skills (3-9 month training time)
- Make it easier for non-EU talent to migrate
- Maternity leave (sex and age profile is different to Nordics)
- Failure to leverage regional locations
- Information friction
- Pan-Baltic region labour mobility is low
- Underutilised Russian language skills

Key Trends

- **Nearshoring**

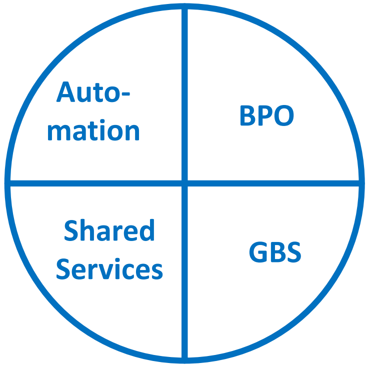
The Hackett Group
World Class Defined and Enabled

*"**Nordic companies can save 50-70% by nearshoring to the Baltics** and 70-90% by offshoring, why take the risk"*

- **IT pervades all aspects of business**
- **IT and location maturity make it easier to adopt shared services and access the Baltic's**
- **Advisors become more widely used**
- **Execution strategy becomes vital**
- **Nordic students increasingly study in Baltic universities**

Best Practise

- Flexible mindset required
- You may not find the exact mix of language and business skills required
- Why not leave language/regulation specific tasks in-country and migrate the rest?
- If you like the Baltic proposition but not Capex then we have BPO possibilities too
- Big Bang and gradual transition both involve pain



Best Practise, Location

- Clear definition of project goals

- Balanced location criteria, specifically financial versus qualitative criteria such as labour quality, productivity, staff turnover, experience

- Accurate numbers in financial model, especially inflation effect

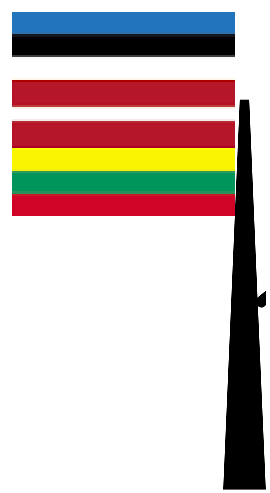
- Visit, meet your peers, test us!

- Do not overestimate the language requirement (esp if internal clients)

- Allow sufficient time, lead times are 6mths to 4yrs

Best Practise, Location

- Financial assistance varies from country to country
- Final EU grant period is 2014-2020
- All countries expected to focus more on labour quality
- You may not be in scope
- Financial impact must be balanced with performance targets and reporting involved



Best Practise, Execution

- Clear project plan and owners
- Documentation of processes ‘as is’ and ‘will be’
- ERP and data aligned
- Plan for existing staff to go absent when move is announced
- New staff to spend time with their colleagues in source countries
- Big Bang will be 3mths of pain and consume resources, but a transitional approach may be too slow
- Advisors can help with solution design and implementation - but Baltic staff learn quickly!

Best Practise, Execution

- **Understand cultural differences exist**
- **Ensure buy-in from the operating businesses**
- **Allocate training budget**

Best Practise, Execution

- **We can’t help you with the unions but we are very discrete**

Best Practise, HR

- Be creative in your recruitment message and channels
- Certain languages carry a premium
- Non financial factors become more important - flexible hours, language training, etc
- Home working emerges - flexible for employee, cost effective for employer and can plug-in languages
- International companies and mobility are attractive to Baltic staff
- HR companies used more, to access talent database and reduce burden on project/centre manager
- Allow time, 3mths is minimum lead time

Q&A

WORKING GROUPS

Working Groups

- **Top 3 opportunities in region?**
- **Top 3 challenges in region?**
- **From plan to action**