

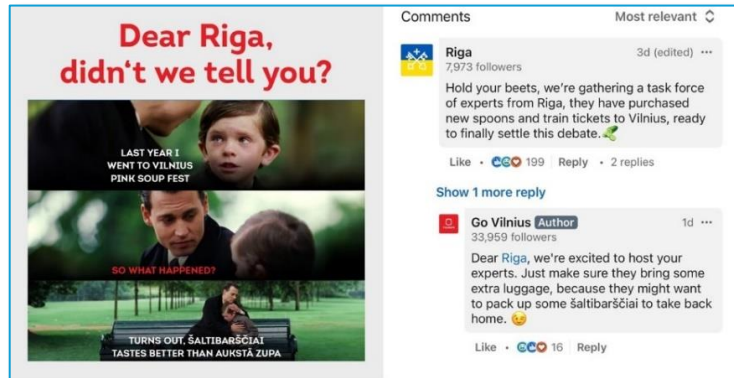
# Soup and GBS – The battles of the Baltic Titans

By Elias van Herwaarden, Locationperspectives

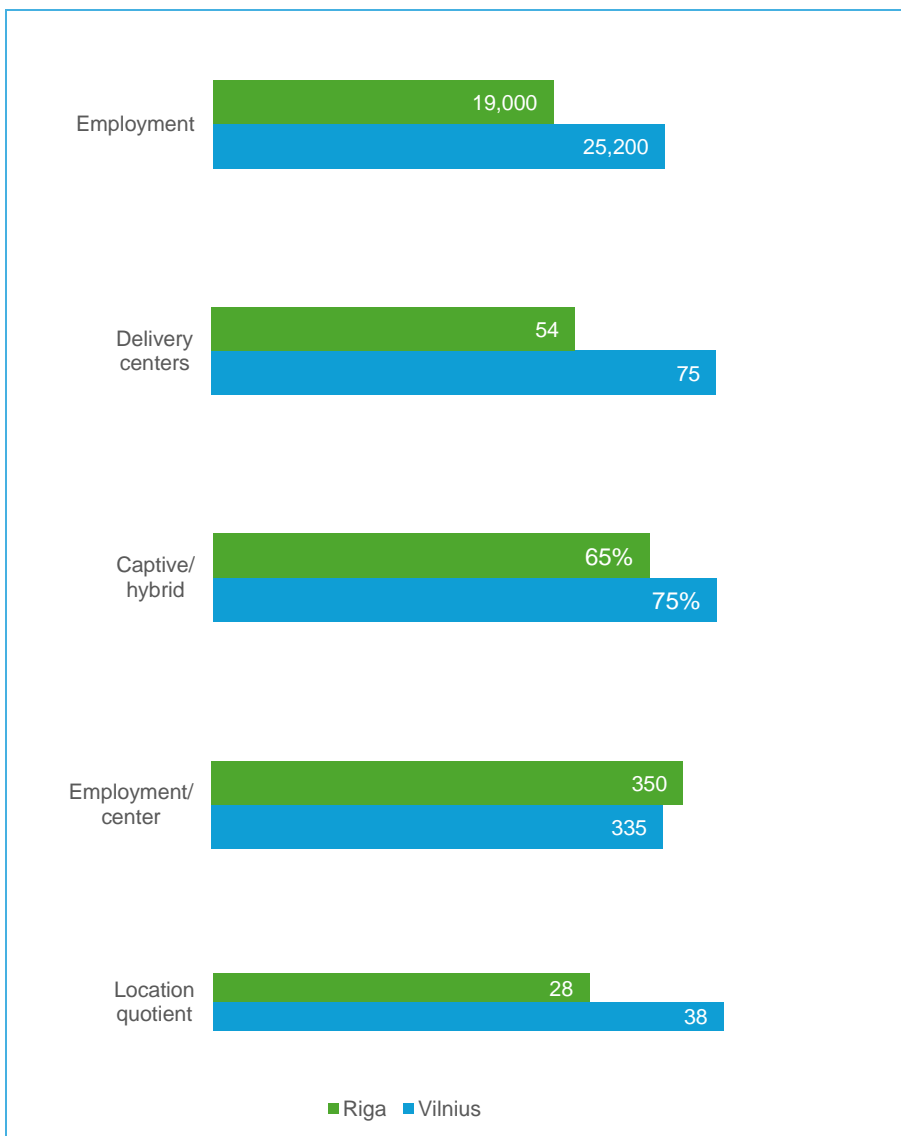
***In the quiet corners of Northern Europe, a fierce yet friendly rivalry brews between Riga and Vilnius. The cities, each with its unique flair and personality, are locked in a perpetual contest.***

***Recently, their tug-of-war extended to who has the better soup. A matter of personal taste, I would say.***

***But what about their servings for Global Business Services? Is one better than the other?***



*To set the scene: Riga and Vilnius are the capitals of relatively small countries and country-level talent magnets each. So, comparing them without considering certain country-level data makes little sense when assessing their attractiveness for Global Business Services (GBS).*



## GBS ecosystem

*By headcount and number of GBS centres, Vilnius has the more developed GBS ecosystem.*

*To be fair, it has benefitted from a long-standing promotion by Invest Lithuania while Latvia and Riga have entered “the GBS attraction game” more recently.*

*Surely, ecosystem size is a factor that GBS planners must take into account. But Riga’s “location quotient” – with 28 GBS employees per 1,000 residents – suggests that it has significant room to grow. (For perspective: that number is 178 and 46 for Budapest and Warsaw respectively.)*

*The captive operating model prevails in both cities. Yet in Vilnius 25% of centres are operated by outsourcing service providers against only 12% in Riga.*

*In Riga, ABSL Latvia (a private sector association of GBS leaders) promotes the growth and reach of the business services sector. In Lithuania this is done by a specialist team Invest Lithuania, a government agency.*

## Peripheral location?

The common view is that Riga and Vilnius are located on the periphery of the European Union. Yet their distance to Western Europe - for example to Berlin - is less than that of other GBS destinations like Bucharest or Sofia. And I haven't started to comment on ease of air-access yet.

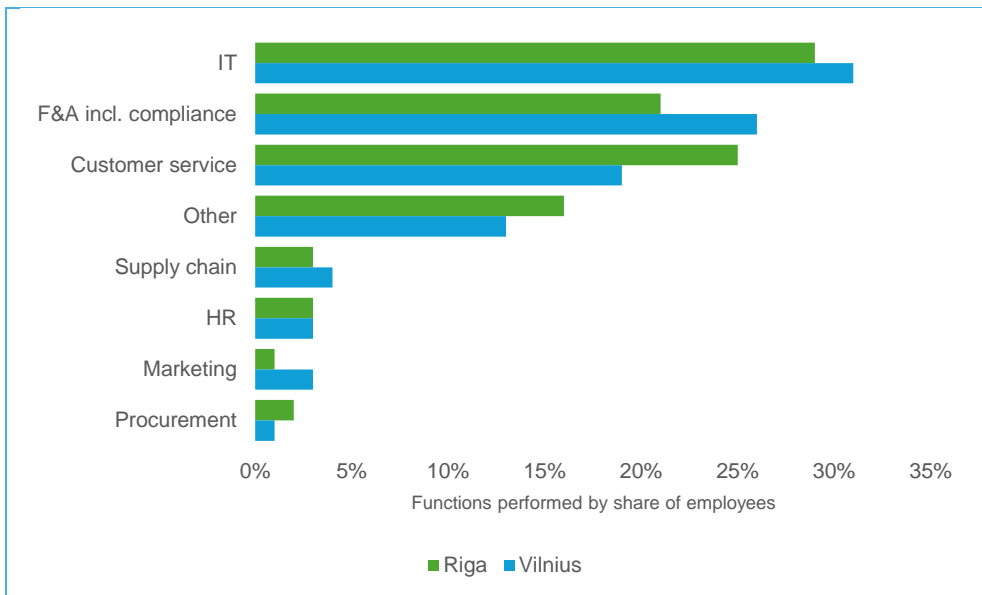
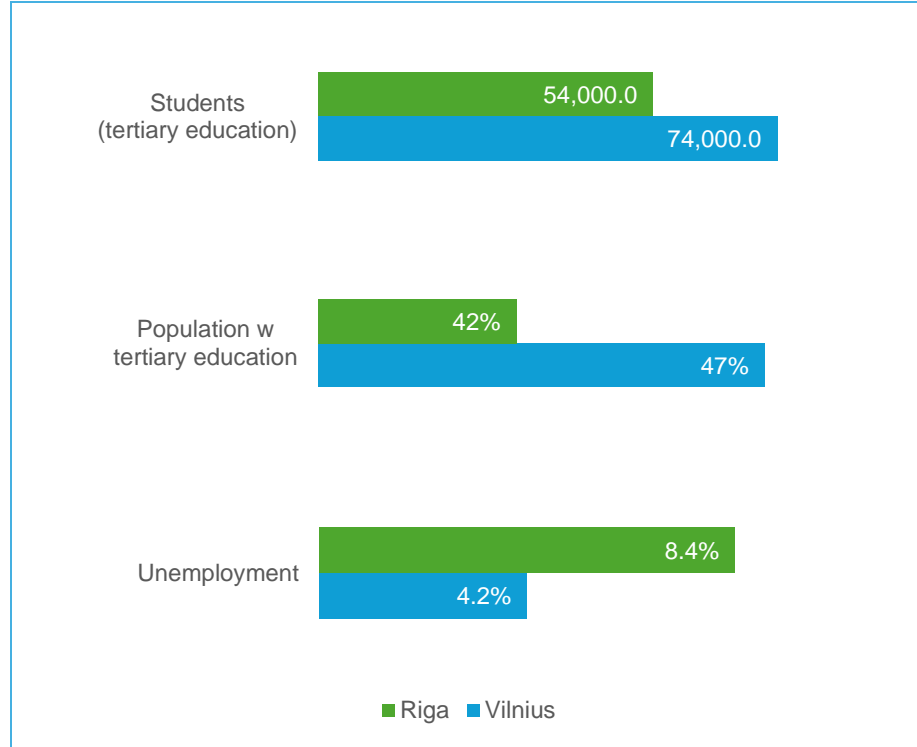
## Population & talent pipeline

Their metro areas population are comparable, hovering in the 860 – 865 thousand range.

This is on the lower-end by comparison to other EU capitals, but exceeding that of popular GBS destinations like Brno and Tricity.

In Riga around 7% of students opts for IT, with approximately 22% choosing economics, accounting or management. Like numbers for Vilnius are 6% and 19%.

Both Baltic cities see an influx of returning nationals and foreigners attracted by job opportunities, quality of life and – for Riga – a digital nomad visa program.



## Key capabilities

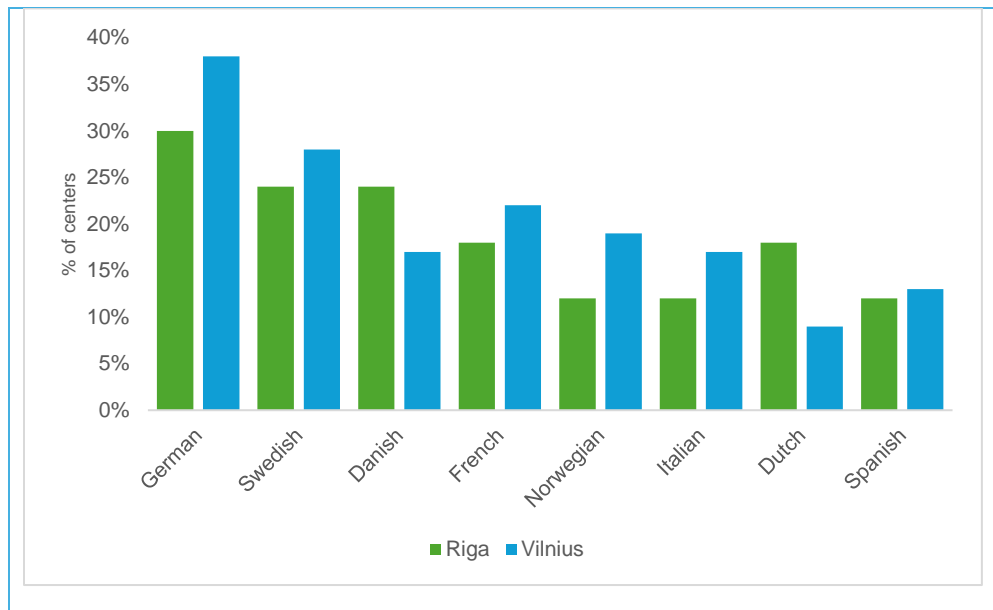
As illustrated opposite, the most notable differences in popularity of functions relate to F&A and Customer Service.

This said, Vilnius – with the larger number of people employed by business services - benefits from a scale effect when it comes to function-specific talent pools.

## Languages

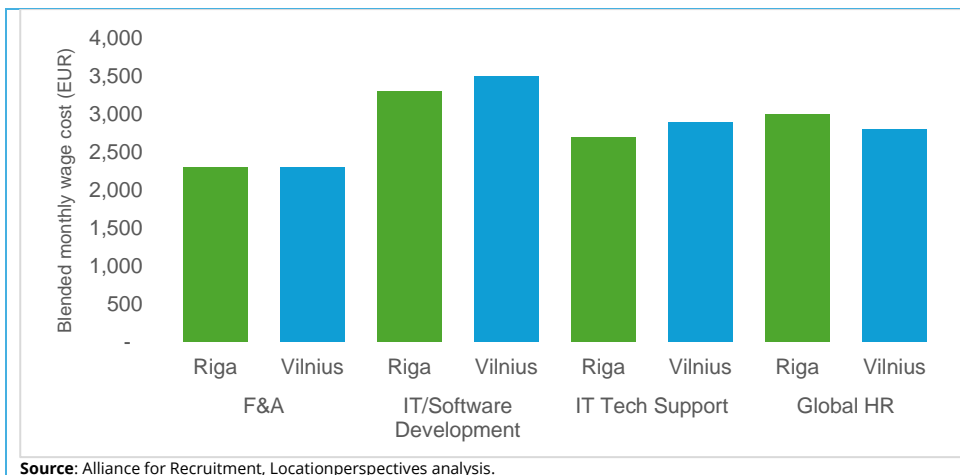
English proficiency is very high in both cities and used by all centres.

Riga and Vilnius have a comparable breadth in terms of other foreign languages. Danish and Dutch are exceptions to the rule and are more commonly used in Vilnius than in Riga.



## Attrition

Little differentiation here. In 2022 voluntary turnover was around 18% and 17% for Riga and Vilnius respectively.



Source: Alliance for Recruitment, Locationperspectives analysis.

## Wage costs

Simplified 2023 blend rates for key functions (based on employee gross salary and employers' social security contribution) do not allow to favour one city over the other

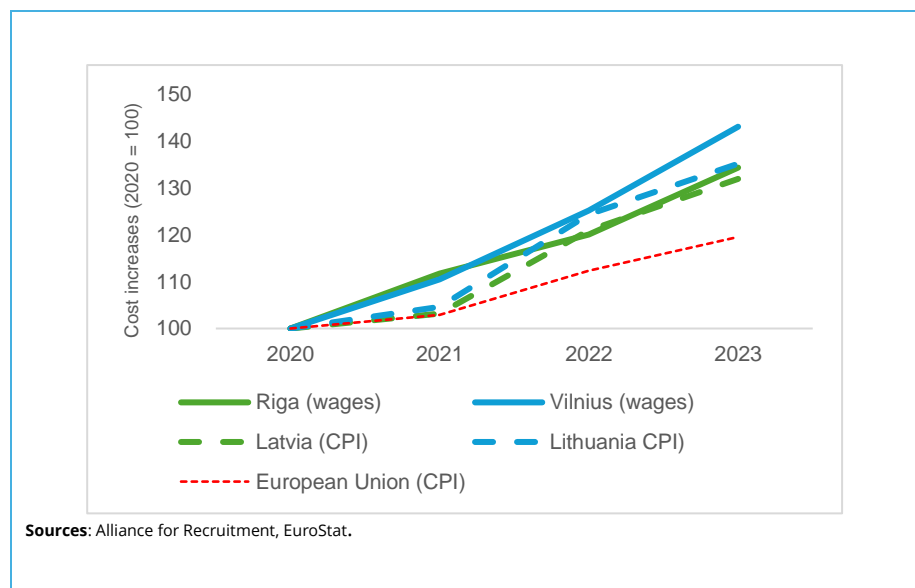
There also is little differentiation between the cities terms of employee benefits offered on top of gross pay.

## Wage inflation

2000 – 2023 consumer price increases (CPI) were 32% and 35% for Latvia and Lithuania respectively. Significantly above the European Union, average.

Where Riga wage increases largely followed CPI, the case is different for Vilnius.

Comments Andrius Francas, partner at Alliance for Recruitment: "The Lithuanian government hiked the minimum wage by 13% in 2022, causing an upward pressure on all wages. I expect the increase of average wages to level off in the year to come."



Sources: Alliance for Recruitment, EuroStat.

## The Verdict

*Given their talent pools, I would certainly consider each city for locating higher-value adding GBS (Global Business Services). In that respect, they do not only compete with each other but also with other Tier-1 and select Tier-2 GBS destinations across Central Europe.*

*However, neither city would be on my list for establishing a GBS aiming for a 500+ headcount operation within 24 months after launch. Admittedly, both cities host centres that employ well above that number, but these have grown organically over multiple years.*

*Employment numbers aside, it is difficult to put one city ahead of the other. That said, some of my clients prefer to locate in smaller cities to benefit from a market-maker effect. Additionally, each GBS operation has its distinct corporate settings and criteria, not to mention a company DNA that drives location strategy.*

*To make the optimal decision, GBS strategists and planners must:*

1. **Always Plan for Scalability:** *With few exceptions, GBS centres grow in scope, whether in their functional or geographical reach.*
2. **Realize That Locations Evolve Rapidly:** *Many companies complain that a city no longer works for them. Often, this is because the local ecosystem has evolved, while the GBS processes still follow a blueprint or mandate dating back over five years. Adjusting your process allocation is crucial; GBSs need to grow or relocate.*
3. **Not Fear the Unknown:** *Rankings of GBS destinations abound, and it may seem safe to choose a destination that ranks favourably on them. However, looking beyond the "beaten path" has worked well for many GBS centres and may do likewise for yours.*
4. **Ensure Quality Data and Insights:** *A GBS location decision cannot easily be revoked, so implementing a robust site selection process is key. This requires tailor-made data and insights into "what works where." Publicly available and subscription-based sources typically fall short in building a hearty business case. They rarely provide valuable insights or address lessons learned. Consulting with other GBS leaders and expert advisors will invariably reduce your risk.*

*If, after considering all these factors, you still face a tie between Riga and Vilnius, you could always let your favourite soup guide your choice.*

### About the author;

Elias van Herwaarden has conducted over 130 GBS feasibility studies, accumulating field experience in 46 countries and 350 cities worldwide. <https://www.linkedin.com/in/elias-van-herwaarden-a677655/>

### Notes:

Data drawn from ABSL Latvia and Invest Lithuania 2023 sector reports, ABSL 2023 EMEA's Business Services Landscape, supplemented by inputs from ABSL Latvia and Invest Lithuania, unless stated otherwise.

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