

Europe vs the rest of the world – Where does FDI from the GBS and IT sectors go?

By Elias van Herwaarden - 08.10.2024

An estimated 1 million people work in captive or outsourced Shared Services and GBS centres across Europe. Globally, the count lands at around 10 million.

Such operations are vital to corporate success. Location strategy is critical for Shared Services and GBS centers to deliver efficiently. With 51% of centre heads expecting to address “location” in the next 3 years, understanding the outlook for Europe is more relevant than ever.

Having developed location strategy for over 130 centres through the last decades, I certainly have an opinion on where Europe is going.

But there is nothing like putting it up for debate.

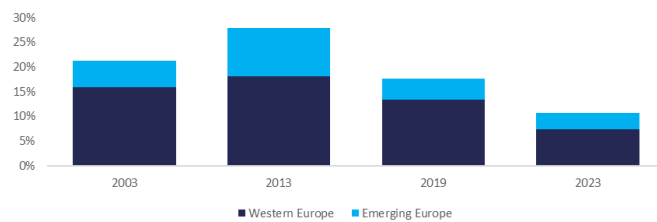
An that is exactly what happened during the opening panel of Pro Progressio's Follow the Leaders Conference in Tricity.



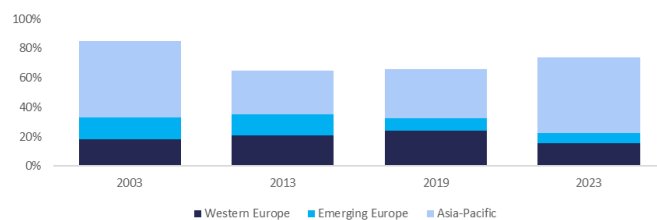
Voting with their feet?

- In 2023 GBS job announcements by Europe-shoring companies from North American was around a third of 10 years earlier.
- Meanwhile, 2023 saw 50% of GBS jobs shored by Western-European companies landing in Asia rather than on- or nearshore. In 2013 that number was 30%.
- Still, Europe does well. Just consider that it landed nearly 20% of all jobs created by GBS and the like worldwide through the 2014 – 2024 period.

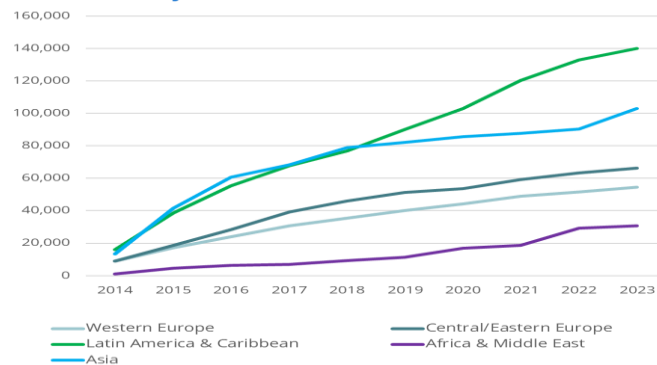
Europe-Shoring - North American Companies



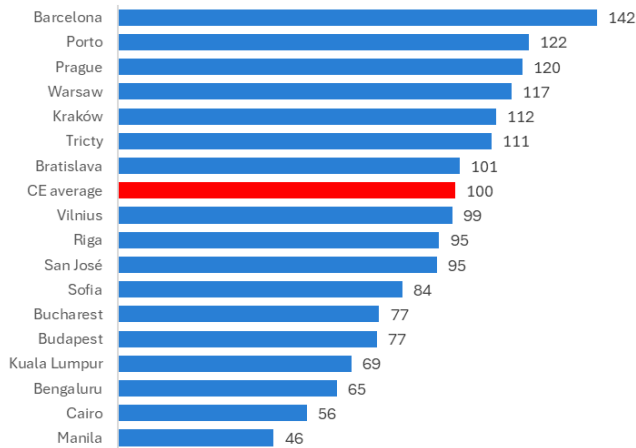
On/Near/Far-Shoring - West European Companies



Jobs announced – Cumulative⁽¹⁾



Average center cost (indexed)



It's still (much) about cost

Admitted, as GBS increasingly perform knowledge-based work the availability of quality talent pools has become a key driver for location strategy.

But the final decision always hinges on cost.

On that criterion the average centre operating cost across Asia's top GBS destinations sits a comfortable 40% below Central Europe's average.

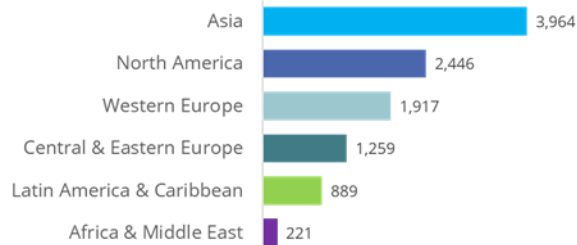
To amplify the picture: GBS have more than just top destinations to chose from. Or Asia for that matter. For some processes, operating costs could almost be halved by relocating them from Central Europe to Cairo.

But Europe still stands and will continue to do so

If panellists agreed that GBS and IT have a wide choice of locations around the globe, they were all but gloomy about the outlook for Europe.

For one, they noted that the region hosts around 3,200 delivery centres. Just 20% below the number for Asia.

Delivery Centers



Also, Europe does not significantly lag the global job creation trend by GBS and the like. For perspective: across Central Europe alone the year-on-year GBS and IT headcount growth averages around 8% post Covid.

The region continues to see new GBS and IT operations being set-up and existing ones expanding, on-site or within the region. The panel stated that key reasons for that include:

- High productivity
- Embedded know-how
- Cluster maturity
- Ability to operate across languages and cultures
- Time zone advantages
- A strong desire from cities and regions to grow the business services sector

My take-aways for GBS Leaders and Site Heads

1. For the foreseeable future, frontline business will continue to require on/nearshore support for its European operations.
2. The historic location of your European delivery centre might no longer be ideal today, but it could make more sense to establish a near/farshore satellite than to relocate the whole operation.
3. Surely over the next years, AI will allow even language-requiring processes to be far-shored from your exiting site(s).
4. Driving productivity and furthering human capital, knowledge and expertise are key to your European site staying in the race.

Notes:

Data should be considered as indicative of the raw order of magnitude for the differences between locations. Sources: Locationperspectives' field work, fDi Markets, a service from The Financial Times Ltd. used with permission and SSON Research & Analytics' City Cube and Shared Services Atlas.