

LOCATION OPTIMISATION IN A BREXIT WORLD



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Britain's decision to trigger Article 50 in March of 2017 has caused ramifications across all areas of the business world, from operations through to legal, IT, risk, compliance and human resources. As businesses look to adapt and optimise their workforces globally, the Brexit decision has caused many firms to reassess their current strategy.

Over the past decade global financial firms have come under increasing pressure from shareholders to increase returns. Limited growth options have put pressure on operational costs, leading to a strategy of short-term cost-savings, which in many cases has pushed firms into a never-ending cycle of relocation to new centres.

By contrast a location strategy driven from a Brexit platform is not purely about cost reduction but about ensuring businesses can continue to

service customers across the UK and the European Union. This means a significant change in focus for teams running location optimisation strategies. Implemented effectively it can not only **reduce costs by as much as 60 per cent***, but also increase a firm's competitive advantage over its rivals, improve the service offering and defend, or **even increase market share**.

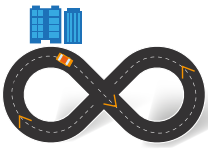
*Based on amount we have helped our clients save

KEY CONSIDERATIONS FOR OPTIMISING YOUR LOCATION STRATEGY IN A BREXIT WORLD



Figure 1: Location Perspectives

STRATEGY PERSPECTIVE



Business case for moving functions

At the outset of any decision in a financial institution, the revenue generation or cost reduction objective needs to be considered and ratified against the firm's strategy. Individual activities that don't drive towards organisational goals can prove costly in the long run if the company-wide direction changes due to internal or external factors.



Execution Governance

Ensuring that the Brexit location plan is executed effectively will require programme management to be co-ordinated across jurisdictions. Programme and project management will need to assess which activities within the change portfolio are critical for the business to be able to operate and prioritise these above all others. Due to potential language and legal complexities, ensuring an effective communication plan as part of the execution will be critical to ensure the programme meets its objectives.

INTERNAL PERSPECTIVE



Researching the optimal location by function

Moving financial services firms wholesale to a location other than the UK fails to address key considerations around specifically which activities are required to be relocated. There are many different types of financial operations, including asset management, investment and commercial banking, insurance and clearing, all of which are different markets with differing needs and requirements. As no European centre is as significant as London, it does not make sense to suggest that one base suits all types of financial organisation and it is realistic to assume that there will be a fragmentation of business functions across Europe for many firms.

To assess the optimal location, adequate research into each facet of your business must be conducted. It might make sense to relocate IT services to one location and certain business functions to another. This however brings substantial communication challenges and requires a structured communication and training plan if it is to be a success.

Another key consideration is whether it is best to locate each service close to the clients it is serving. This presents an opportunity for teams servicing certain markets which were formerly centred around London to move closer to the actual clients in Europe.



Employment, language and cultural issues

Each country in Europe has different rules around the employment of staff. In the UK, many employees opt out of the Working Time Regulations 1998 meaning that at crucial times, extra hours can be worked to service business needs. In some European countries, this isn't possible, and consideration must be given, especially in high-pressure business units and change programmes, as to whether these can adequately be run from a given European country.

Britain is also a native English-speaking country and in considering whether to relocate services outside of the UK thought must be given to the language and cultural norms of the target location.

For a location optimisation strategy to be successful, it is also necessary to consider the issues around hiring and on-boarding new staff in different locations and to ensure that adequate training and business continuity plans are in place. The sensitive nature of such a programme means that human resources plays an important part in creating a communication strategy to ensure reputational and regulatory risk is mitigated.

CLIENT PERSPECTIVE

Passporting scenarios:



Moving divisions to Europe

Once Britain leaves the EU, certain functions may need to be relocated so they can continue to operate across Europe. This presents substantial operational risks and requires significant planning. Asset managers and insurers are expected to be the hardest hit, though the final decision of whether the businesses will need to move depends on the exact terms of the UK's Brexit agreement.



Moving divisions to the UK

There are concerns from a number of foreign financial firms that they may not be able to easily access the UK's capital markets post Brexit. In addition, there is also a concern that European insurers and fund managers may not be able to service the UK. These firms, if not already located in the UK, may look to relocate to ensure they can adequately service their clients or access capital markets



Support functions close to the business

Much of the argument for support functions to remain in London is because they are close to the business. If the business relocates to other EU centres, much of this argument disappears and support functions could be relocated to lower-cost centres at the same time. This represents a major opportunity but also a significant challenge to ensure service levels are maintained as the scale and complexity of change increases.



Centres of excellence across Europe

Firms should consider setting up centres of excellence that can service European and global clients around the clock. This may help in increasing operational efficiency and assist in meeting the challenge of providing a full, high-quality service regardless of the location.



Maintaining service levels

Moving functions outside of London requires firms to assess how to maintain service levels with dispersed divisions. In a cost-reduction location strategy, Brickendon research found that whilst costs for some functions dropped by as much as 60.4%, actual output reduced by a much larger 78.2%. The result is an increase in cost relative to output. This could well be true for functional moves as part of Brexit.



Data protection

Whilst Brexit will mean there are 60 million fewer EU citizens, it will not ease up the requirement for organisations to comply with EU data regulations. Data protection regulations such as GDPR (General Data Protection Regulation) protect the rights of EU citizens rather than enforce behaviour on EU companies. As such, all companies hoping to operate within Europe still have to deal with the issues surrounding data protection.



GEOPOLITICAL PERSPECTIVE



Regulatory implications

Large amounts of the UK's financial services regulations are currently aligned to the other EU member states. Going forward this may not be the case and there is a realistic expectation that the UK may begin to deviate from the EU. This will provide opportunities for flexible organisations to benefit and the potential to play "regulatory arbitrage" will exist. The optimum location for businesses could be in, or indeed out, of the UK. During 2017, MiFID II is a major concern for financial firms and the challenges associated with Brexit compounds this regulatory directive. The UK requirement for the ring fencing of banks is of similar concern.



Risk assessment

Moving functions to another European country carries significant risks and needs to be closely monitored. A structured assessment covering operational, regulatory, financial and reputational risk associated with the movement of any function needs to be carried out to ensure business operations can be continued and maintained regardless of location.

It is important to think about the firm's brand and what moving jobs or services will do to its reputation. If a firm has a major presence in the UK or other European centres, moving jobs may have a negative impact on that business' operations.

STANDARD LOCATION OPTIMISATION V BREXIT CONSIDERATIONS

AREA	STANDARD CONSIDERATIONS	BREXIT CONSIDERATIONS (IF DIFFERENT)
MAIN DRIVER	<ul style="list-style-type: none"> ● Major driver for location strategy has been short-term cost reduction ● Secondary considerations are pools of resources and access to clients ● Review of operating models ● Skills 	<ul style="list-style-type: none"> ● Major driver is the access to clients and the ability to service markets ● Secondary considerations are pools of resources and cost reduction
EMPLOYEE RELOCATIONS	<ul style="list-style-type: none"> ● Cost of relocation ● Language barriers ● Cultural considerations ● Legal requirements and employment laws associated with hiring and dismissing employees ● Ease of expanding and contracting the workforce as appropriate ● Limited number of high cost resources relocated due to cost ● Movement of staff to low cost locations outside of Europe a major consideration 	<ul style="list-style-type: none"> ● Sourcing roles/skills in each location to service the market ● Decision making capability required in centre chosen meaning high cost resources might need relocation or recruitment ● Movement of staff within Europe a major consideration
EMPLOYEE PAY AND CONDITIONS	<ul style="list-style-type: none"> ● Legal requirements and employment laws associated with hiring and dismissing employees advantageous to employers across the UK and many low cost centres 	<ul style="list-style-type: none"> ● Many European countries have strong employment laws making the hiring and firing of staff difficult and limiting a firm's ability to expand and contract with economic cycles ● Existence of salary and bonus caps in some European cities
INFRASTRUCTURE AND SYSTEMS	<ul style="list-style-type: none"> ● Movement of data across Europe was not a major driver of location strategies ● Movement of systems and data to low-cost centres outside of Europe 	<ul style="list-style-type: none"> ● Legal requirements for the movement of data between the UK and Europe ● Movement of systems and data within Europe
REGULATION	<ul style="list-style-type: none"> ● Aligned across UK and Europe 	<ul style="list-style-type: none"> ● Potential lack of alignment across UK and Europe
FINANCIAL	<ul style="list-style-type: none"> ● Set-up, legal and personnel costs (eg. relocation) ● Infrastructure costs ● Ramifications for tax revenue and transfer pricing if support functions are transferred to lower cost locations 	<ul style="list-style-type: none"> ● The UK's relatively low corporate tax rate ● Potential VAT changes between the UK and the EU27
TIMEZONE	<ul style="list-style-type: none"> ● Core operations maintained to service European and US customers 	<ul style="list-style-type: none"> ● Europe is 1 or 2 hours further from New York than London

Figure 2

BRICKENDON LOCATION STRATEGY PRINCIPLES

Location Optimisation Principles should be followed regardless of the justification for location optimisation



HOLISTIC APPROACH

- ▶ Aligned to the client's corporate strategy
- ▶ Long-term solution in a short time-frame



TAILOR-MADE SOLUTION

- ▶ Bespoke programme developed in conjunction with the client's needs
- ▶ Best practice applied to client's specific requirements



COHESIVE EXECUTION

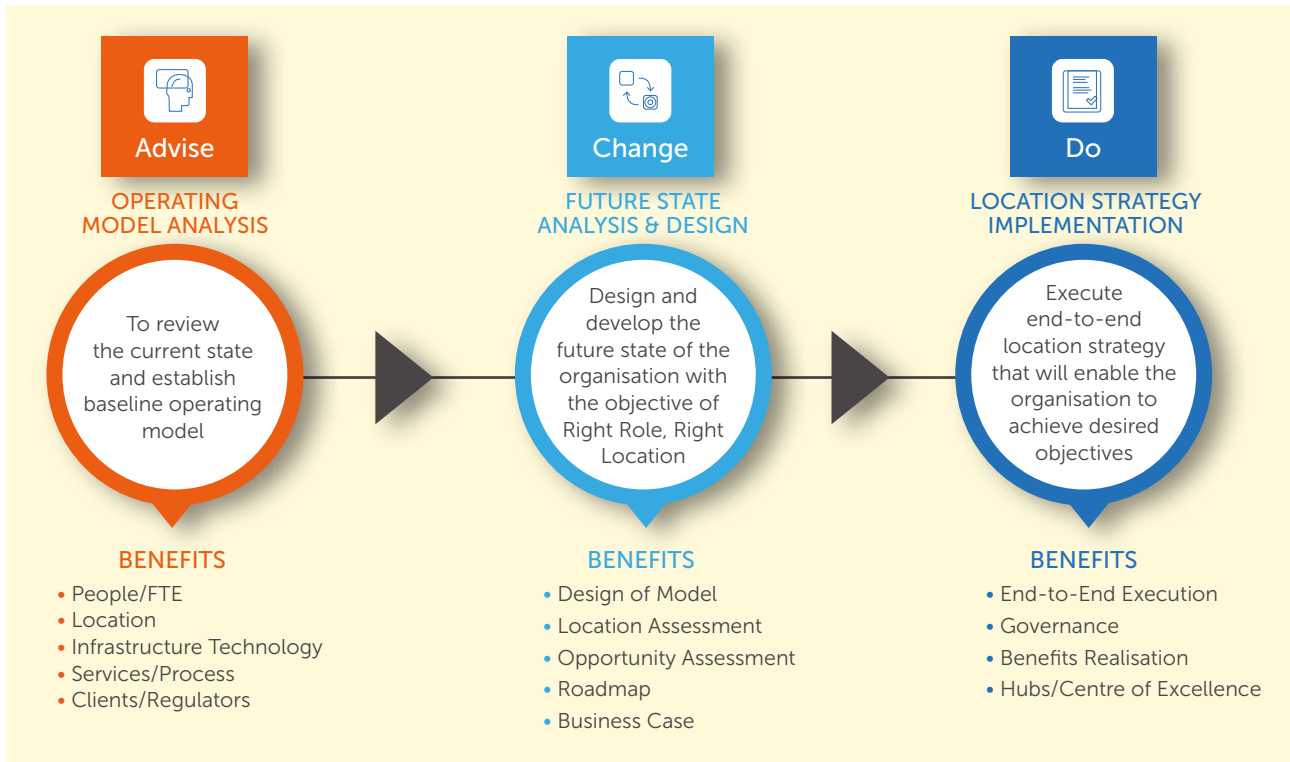
- ▶ Key stakeholders are involved from the start to ensure seamless planning and execution
- ▶ Globally applied standards and execution



CONTINUOUS IMPROVEMENT

- ▶ Clients are provided with a framework where location decisions can be continually reviewed
- ▶ Regular reviews to ensure advantage is maintained

BRICKENDON CONSULTING FRAMEWORK



Operating model analysis

The first thing to look at is your current footprint: to assess what services you have where; which clients you are serving from which existing locations; what infrastructure supports the existing services and clients; and when your existing real estate leases expire.

Future state analysis and design

The next move is to outline where you want your business to be; consider where certain services are needed in order to serve particular clients; and where there are options to tap into specific talent pools or hotspots.

As a result, a well thought-out location optimisation strategy can in fact work as a positive marketing and public relations tool for your business, both internally and externally. It is definitely worth considering what the impact on your business would be if you relocated certain services to particular locations.

You could, for example, tap into an already-established centre of excellence and help maintain employment in that area, or even encourage the development of a new hotspot in a new area.

It is also important to consider regulatory and legal structures as compliance and regulatory constraints vary from one location to another. As a result, it is key to engage HR and legal departments from the outset to avoid financial penalties and operational issues.

Location strategy implementation

Getting any location optimisation strategy wrong could have severe ramifications for a firm's business, but getting it wrong in a post-Brexit world could be even more devastating. At its worst, a firm could end up not being able to service its clients and being forced to shut down parts, or all, of its business. However, if assessed and addressed properly, these pitfalls can be avoided.

Moreover, carried out correctly with the right level of prior research, a successful location optimisation strategy could provide numerous benefits for your business. As well as the obvious reduction in costs, it could also help provide a simple and transparent organisational structure, increase reputational profile by being seen to boost lower-cost economies and ensure a certain degree of global standards.

In short, the key is to devise a plan and stick to it to ensure your business does not end up in the never-ending cycle of relocation without a set purpose. Whatever model you decide to adopt, it is essential you invest in the right people with the right vision to make it a success.



BRICKENDON

ABOUT US

Brickendon is an award-winning global management and technology consultancy specialising in innovative solutions that save our clients time and money. Our aim is to deliver transformational change across our three key offerings of Advise, Change and Do, through our five practice areas: Data, Quality & Test, Risk & Regulation, Strategy and Digital. This helps ensure our clients see positive results in weeks, not months or years.

Employing domain experts with over 10 years' respective experience in specialist sectors, Brickendon is built on providing lasting, cutting-edge solutions designed to improve profitability, efficiency, competitiveness and innovation across the financial services sector. We are passionate about what we do and thrive on transforming companies to increase their competitive edge.

Started in 2010, the driving force behind Brickendon's global strategy is transforming the traditional consultancy model by providing lasting, cutting-edge solutions that improve companies' profitability and efficiency, increasing their competitive edge. We have offices in London and New York and are continuing to grow our footprint strongly.

To find out more about how we can help your business choose the right location optimisation strategy please contact:



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