



Iceland's Competitiveness In Shared Services

Opportunities to Expand Service Businesses Abroad

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Project Objectives

Determine capabilities and advantages of Iceland as a destination for:

- Shared services operations within companies (captive)
- Shared services operations provided by a second company (outsourced)

Investigate current businesses in Iceland to determine:

- Support operations structures
- Existence of shared services operations
- Relationships with companies in other countries that might be candidates for setting up shared services in Iceland

ScottMadden's Approach

Confirm Objectives and Work Plan

- Confirm project objectives
- Develop tentative work plan
- Request/review information on Iceland
- Review marketing information from other countries/locations
- Present plan to stakeholders
- Refine information collection templates and interview guides

Assess Business Environment in Iceland

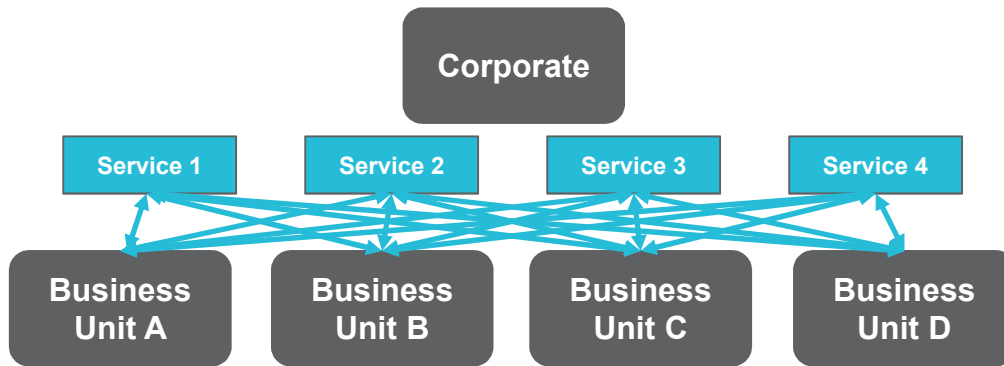
- Refine factors to be compared with other locations/countries
- Compare Iceland to leading locations around the world
- Develop current strengths and opportunities for Iceland
- Compile information on business environment in Iceland and potential for shared services
- Review information and interview executives of companies operating in Iceland
- Summarize market opportunities and positioning for Iceland

What Is Shared Services?

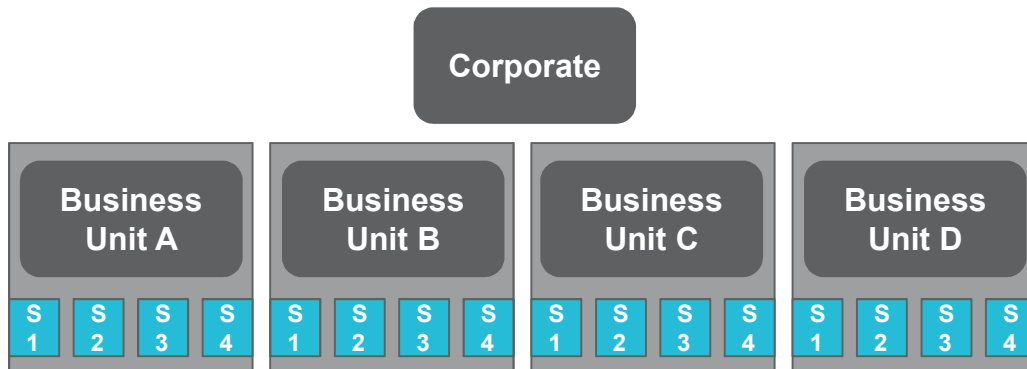
Shared Services:

- Services where multiple divisions of the same company share a central service provider that is held outside of the individual business units
- Services typically include HR, finance and administration, supply chain, procurement, IT and others

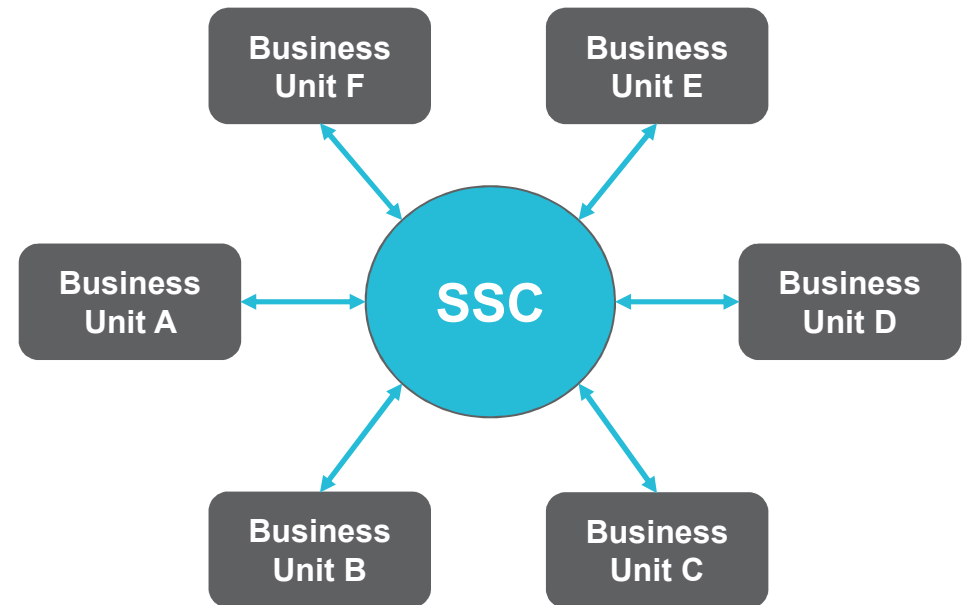
Centralized Model



Decentralized Model

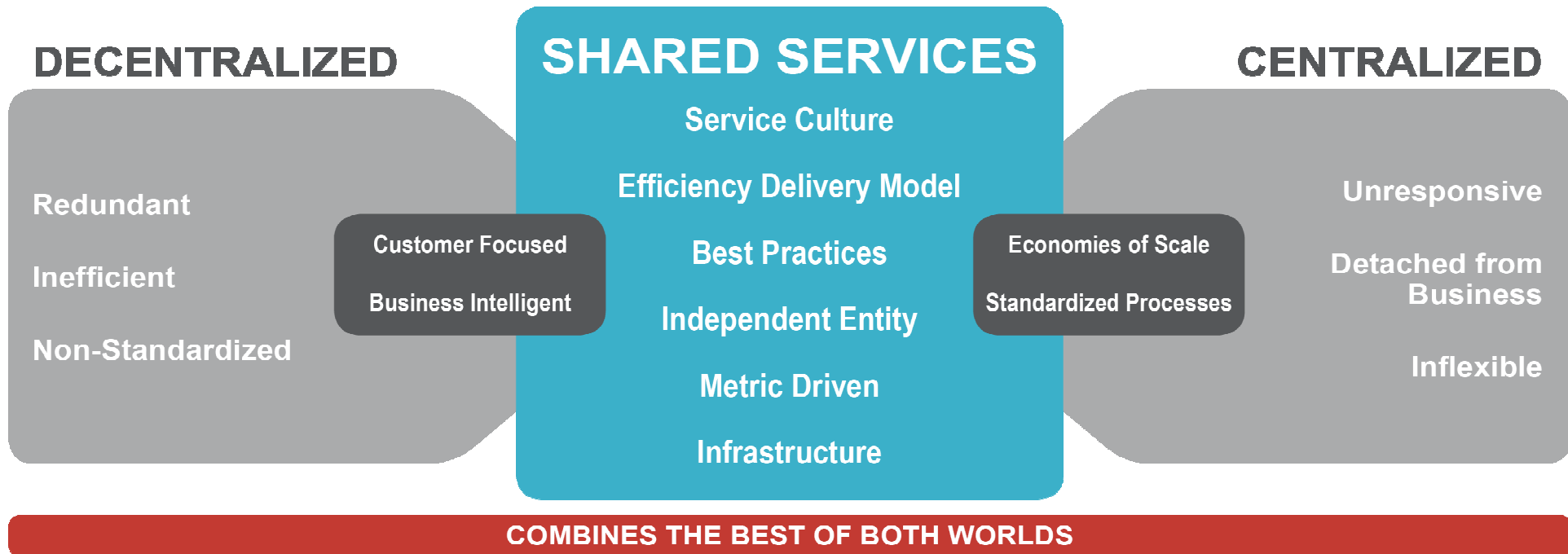


Shared Services Model



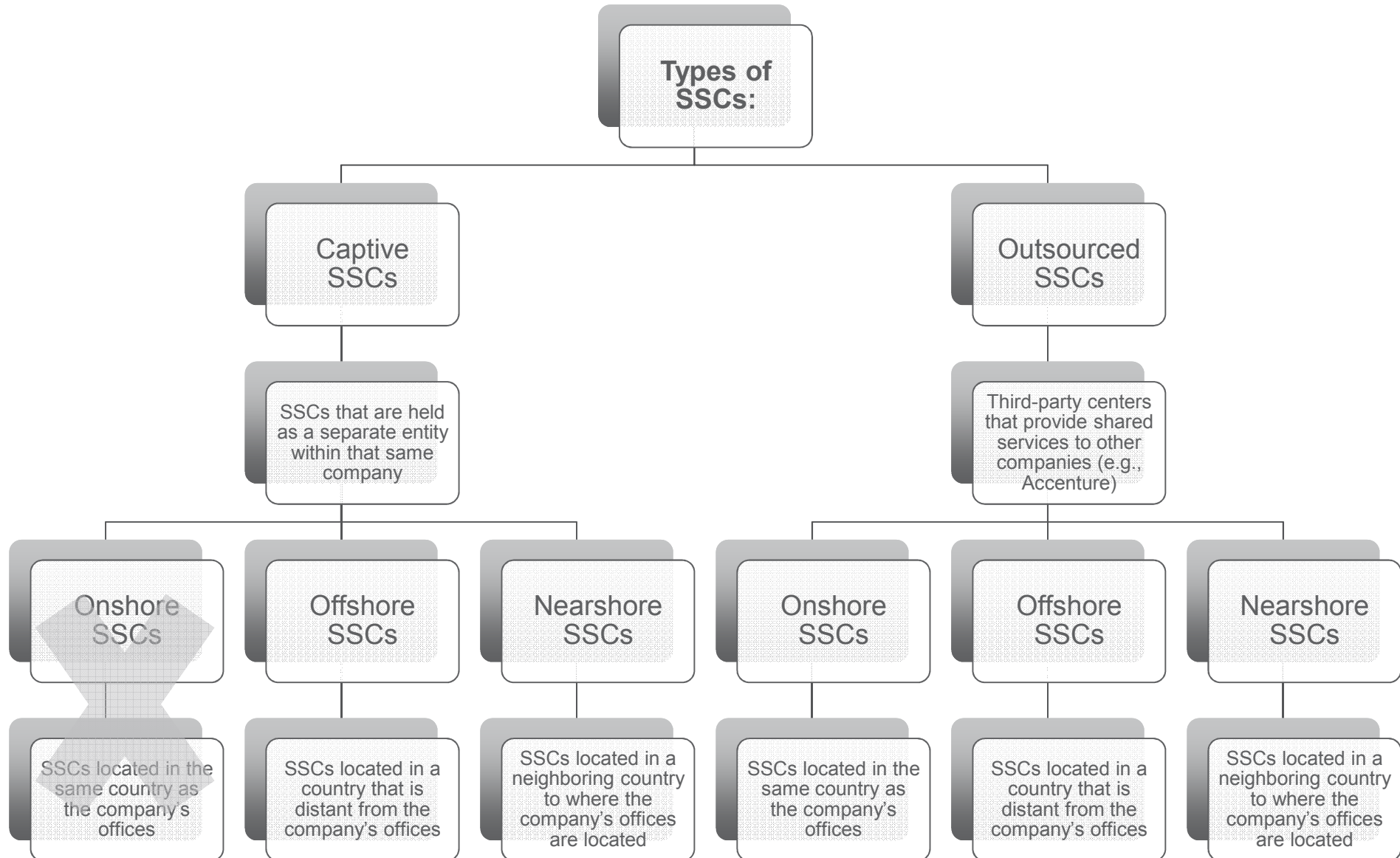
Shared Services Advantage

Shared services combines the best features of centralized and decentralized models to improve service, reduce costs, and enhance compliance.



The key to transforming support services is designing and implementing a leading practice service delivery model.

Other Definitions Within Shared Services



Why Companies Offshore Their Shared Services

Top Three Reasons	Considerations	Advantage Provided
Cost	<ul style="list-style-type: none"> ■ Lower wages, salaries, and benefits ■ Lower corporate taxes ■ Lower real estate costs 	Labor arbitrage
Talent	<ul style="list-style-type: none"> ■ Larger quantity of available workers ■ Higher education level of workers ■ Lower worker turnover rate 	Scalability and access to talent
Location	<ul style="list-style-type: none"> ■ Alignment of time zones to operations and clients ■ Language needs and cultural fit ■ Accessibility and convenience of travel 	Convenience and access to operations and clients

Reykjavik was compared to four of the top shared services destinations including:

Miami, Florida

Prague, Czech Republic

San Jose, Costa Rica

Kuala Lumpur, Malaysia

Sources:

1. "Where Will Shared Services Go Next," Deloitte, 2014
2. "Centralized Operations," EY, February 2014
3. "A structured Approach to Shared Services," Infosys, 2010
4. "Setting Up an Offshore SSC," SSON, 2012
5. "Learning from the Masters," Accenture, 2009
6. "Learning from the Masters," Accenture, 2009

Reykjavik's Competitiveness In Shared Services

Description:^{1,2}

- Critical criteria are labor supply, labor costs, and education levels
- Lowest weighted criteria are infrastructure, government incentives, and convenience

Takeaways:

- Reykjavik's competitiveness is neutral or weak for six of the seven highest-weighted criteria
- Reykjavik's low labor supply and relatively high labor costs pose significant challenges in attracting traditional SSCs to the city
- Iceland is not in a competitive position for large share services centers or for high-transactional shared services offerings
- Iceland must leverage its strengths to compete as an outsourcing destination for shared services

Criteria	Importance	Reykjavik's Competitiveness
Labor Supply	High	Weak
Labor Costs	High	Weak
Education Levels	High	Neutral
Language Capabilities	Medium	Neutral
Staff Turnover Rate	Medium	Neutral
Political Stability	Medium	Strong
Economic Stability	Medium	Weak
Logistics / Convenience	Low	Strong
Ease of Doing Business	Low	Neutral
Real Estate / Facility Costs	Low	Neutral
Tax Breaks & Incentives	Low	Strong
Crime Rate	Low	Strong
Electricity Reliability	Low	Strong
Water Reliability	Low	Strong
Telephone Penetration	Low	Strong
Internet Penetration	Low	Strong
Disaster Frequency	Low	Strong
Cultural Acceptance	Low	Neutral

Iceland – Strongest Across Many Location Factors

Criteria	Units	Ranking				
		1	2	3	4	5
Political Stability	Index 1 - 100	Reykjavik - 92	Prague - 84	San Jose - 67	Miami - 66	Kuala Lumpur - 48
Crime Rate	Index 0 - 7	Reykjavik - 6.3	Prague - 5.4	Kuala Lumpur - 4.9	Miami - 4.5	San Jose - 3.9
Logistics / Convenience	Index 0 - 7	Reykjavik - 5.9	Miami - 5.5	Kuala Lumpur - 5.4	Prague - 4.7	San Jose - 2.9
Electricity Reliability	Index 0 - 7	Reykjavik - 6.8	Prague - 6.5	Miami - 6.0	Kuala Lumpur - 5.9	San Jose - 5.5
Water Reliability	Penetration	Reykjavik - 100%	Prague - 99.8%	Kuala Lumpur - 99.6%	Miami - 99.2%	San Jose - 96.6%
Telephone Penetration	Penetration	Reykjavik - 58%	Miami - 48%	San Jose - 32%	Prague - 21%	Kuala Lumpur - 15%
Internet Penetration	Penetration	Reykjavik - 95%	Miami - 78%	Prague - 73%	Kuala Lumpur - 61%	San Jose - 42%
Disaster Frequency^	Index 0 - 10	Reykjavik - 1.45	Prague - 2.03	Kuala Lumpur - 3.38	San Jose - 4.85	Miami - 7.58
Tax Breaks & Incentives	Index 0 - 1	Reykjavik - 0.96	Prague - 0.80	Kuala Lumpur - 0.78	San Jose - 0.38	Miami - 0.2
Real Estate Costs^	\$/Sq. Ft.	San Jose - \$4	Reykjavik - \$10	Prague - \$30	Kuala Lumpur - \$32	Miami - \$40
Education Levels	Tert. Grad %	Miami - 94%	Reykjavik - 81%	Prague - 64%	San Jose - 47%	Kuala Lumpur - 37%
Language Capabilities	English Fluency	Miami - High	Reykjavik - High	Kuala Lumpur - High	Prague - Moderate	San Jose - Low
Ease of Doing Business^	Ranking 1 - 189	Miami - 7	Reykjavik - 12	Kuala Lumpur - 18	Prague - 44	San Jose - 83
Staff Turnover Rate^	Percentage	Miami - 2.4%	Prague - 12.7%	Reykjavik - 13.0%	San Jose - 15%	Kuala Lumpur - 15.7%
Labor Costs^	Tot. Emp. Cost	Kuala Lumpur - \$23k	Prague - \$32k	San Jose - \$53k	Reykjavik - \$56k	Miami - \$75k
Labor Supply	Index 0 - 1	Kuala Lumpur - 0.90	Miami - 0.62	Prague - 0.56	San Jose - 0.48	Reykjavik - 0.00
Economic Stability	Index 0 - 7	Kuala Lumpur - 5.3	Prague - 5.2	San Jose - 4.7	Miami - 4.0	Reykjavik - 3.7

Key: Strong Neutral Weak

^ Low score is more competitive

Methodology (in brief)	Summary
<ul style="list-style-type: none"> Reykjavik was compared to leading locations including Prague, Kuala Lumpur, Miami, and San Jose, Costa Rica using 17 criteria A ranking of 1 is a strength, a ranking of 2 or 3 is neutral, and a ranking of 4 or 5 is a weakness 	<ul style="list-style-type: none"> Strengths: infrastructure, political stability, and natural disaster frequency, corporate income tax Weaknesses: labor rates, labor supply, and economic stability

Iceland's Key Strengths And Challenges

Perspectives of Icelandic Companies	Examples of Existing Service Businesses
<p>Feedback from 11 Icelandic companies:</p> <ul style="list-style-type: none">■ Very talented labor force■ Service offerings can be successful in niche markets■ Scalability is a challenge due to limited labor supply■ Transactional shared services offerings will be challenging in Iceland	<p>Existing SSC Examples in Iceland:</p> <ul style="list-style-type: none">■ Icelandair Finance and Accounting (F&A) Shared Services Center (SSC)<ul style="list-style-type: none">• Serves 40 domestic and foreign companies• Targets aviation and hospitality industry clients and larger domestic companies in various sectors■ Advania<ul style="list-style-type: none">• Offers IT shared services to complement its core IT and data center business

Strengths discovered through comparisons and strengths voiced by companies are consistent

Opportunities For Shared Services And Outsourcing in Iceland

Core Competency: Fisheries and Marine Transportation Expertise

Areas of Focus:

- Fishery and food processing technology services
- Fishery management and shared services
- Marine transportation industry information shared services
- Marine transportation consultation and analytical services

Strengths for Iceland:

- Local market demand for services
- Strong expertise in fisheries and global transportation

Challenges for Iceland:

- Limited supply of college graduates with relevant degrees for shared services roles

Core Competency: Geothermal/Hydro Power Expertise

Areas of Focus:

- R&D services for geothermal and hydro power
- Energy industry shared services (HR, F&A, IT, etc.)

Strengths for Iceland:

- Local market for services
- Low-cost, renewable energy
- Well-educated labor force
- Expertise in renewable power

Challenges for Iceland:

- Limited supply of engineers and college graduates with relevant degrees for shared services roles

Core Competency: Data Centers and IT Services

Areas of Focus:

- IT Services*
- Data storage
- IT/software development

Strengths for Iceland:

- Low-cost, green energy
- Convenient location between the United States and Europe for travel and coordination
- Flexible, well-educated labor force

Challenges for Iceland:

- Limited supply of low-cost labor
- Limited supply of IT and engineering expertise

*IT services can be applicable to all public and private sectors. Examples of IT services include: IT helpdesks, data storage, IT security operations, corporate IT governance, power and automation controls services, application maintenance, systems administration, software development and support, web development and hosting, productivity/communications systems services, and more.

IT Shared Services In Other Nordic Countries

Nordic countries compete well in the IT shared services space.

Examples of Shared Services in the Nordic Countries

SSC Attractiveness: Sweden, & Finland in Top 10 locations for new shared services centers

Captive Shared Services Centers:

■ Captive Shared Services in Norway:

- Fugro: payroll and engineering services
- Telenor: IT, payroll, HR and procurement
 - Centers in Norway, Pakistan, and Bangladesh
 - Moving much of Norway shared services to Asia to reduce costs
- HCL Technologies: New IT service center in Oslo in 2015

Shared Service Providers in Nordic Countries:

- HCL Technologies – 2015 put new IT service center in Oslo, Norway
 - Other Nordic Service Centers in Finland and Stavanger, Norway
- CGI – IT outsourcing – Sweden, Finland, Norway, France, UK, Portugal, Spain, Canada, US, Brazil, and Australia

Shared Service Providers to the Nordic Countries:

- Runway – All back-office services and call center to serve Nordic countries
 - Service centers in Spain, Latvia, Estonia, Lithuania, and Ukraine

The Nordic countries have attracted shared services and FDI investment – primarily in IT services. IT labor supply is supporting this development

Iceland's Competitiveness With Other Nordic Countries

Relative to other Nordic countries Iceland's labor and corporate tax costs are competitive.

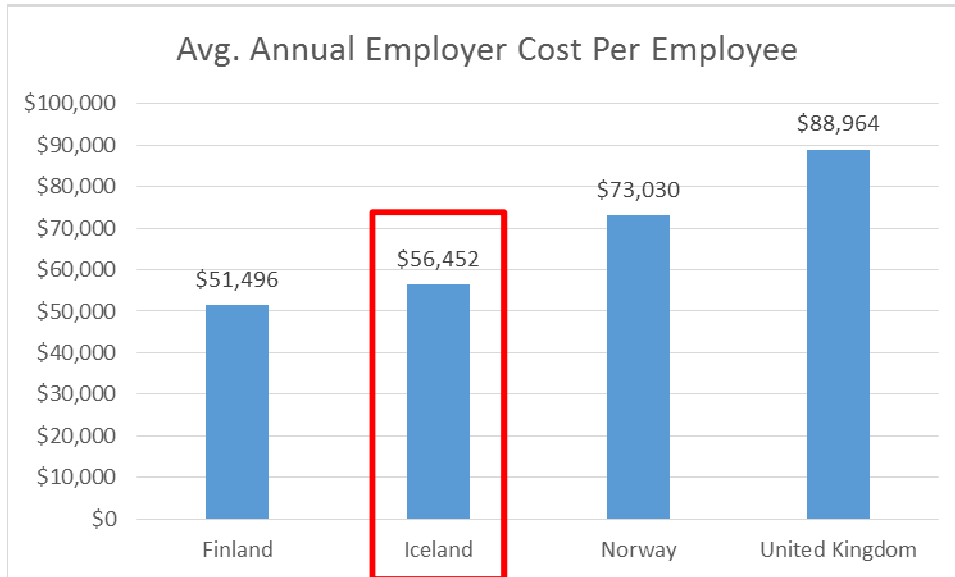
Total Employer Cost:

- Total employer cost includes salaries for relevant shared services roles and mandatory social contributions/taxes
- Iceland is competitive with the Nordic countries, USA, and U.K. on employee cost
- Finland and Iceland have most competitive employer costs of the group

(Limited salary data available for Sweden and Denmark)

Corporate Tax Rates:

- Iceland's tax rates are competitive with European countries
- Corporate income tax in Iceland is 20%, along with Finland and U.K.



Iceland is cost competitive with the Nordic countries and the U.K.

Conclusions – Iceland's Strengths and Weaknesses

Iceland's many strengths

Talented labor force

- Well-educated
- Problem solvers

Strong work ethic
(culture)

Well-developed
infrastructure

Low cost, green
energy

Specialized knowledge
and expertise

Limited labor supply

High labor cost for
transactional services

High corporate tax
rates

Iceland's key weaknesses

Recommendations For Companies And Rationale

Following are key recommendations and rationale for expanding high-value service businesses in Iceland.

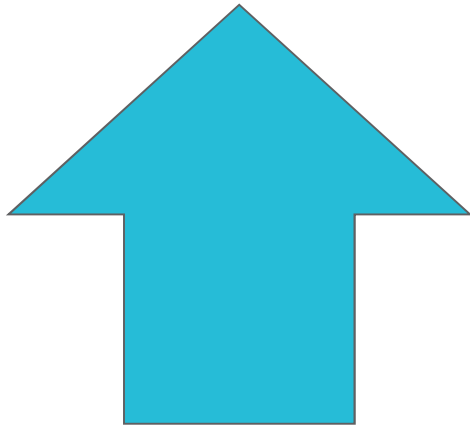
Recommendation	Rationale
Expand complex, low-transaction, niche services	<ul style="list-style-type: none">■ High labor costs are uncompetitive for high volume transactional services■ Niche services leverage strengths and raise barriers for competitors■ High labor costs and low labor supply limit range of services through a single provider
Target niche clients	<ul style="list-style-type: none">■ Clients in niche markets are more likely to see value of shared services offerings from Icelandic companies with strong experience in that same niche market
Target small-to-medium sized clients for shared services offerings	<ul style="list-style-type: none">■ Iceland's labor supply is very limited compared to the recruitment needs of a large-scale shared services operation■ Large clients will likely seek broader set of service offerings than those provided by niche suppliers■ Cost pressures and competition are likely to be greater with larger clients

Recommendations For Companies And Rationale (Cont'd)

Recommendation	Rationale
Avoid marketing in broad shared services arena	<ul style="list-style-type: none"><li data-bbox="1144 459 2063 608">■ Iceland's labor availability will make hosting shared services (as a captive destination or as an outsourcer) challenging<li data-bbox="1144 608 2029 756">■ The top three reasons companies offshore shared services centers are labor cost, labor talent, and labor availability

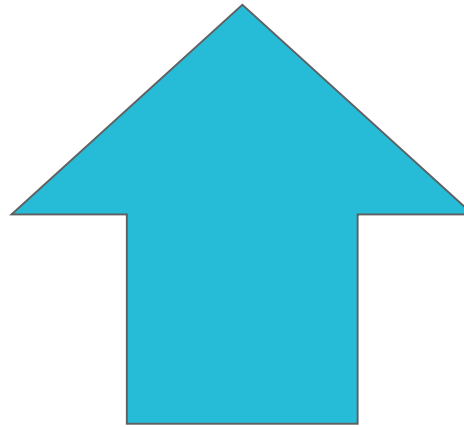
Recommendations For Iceland For Improving Competitiveness

Increase tertiary graduates in computer science, information technology, and engineering



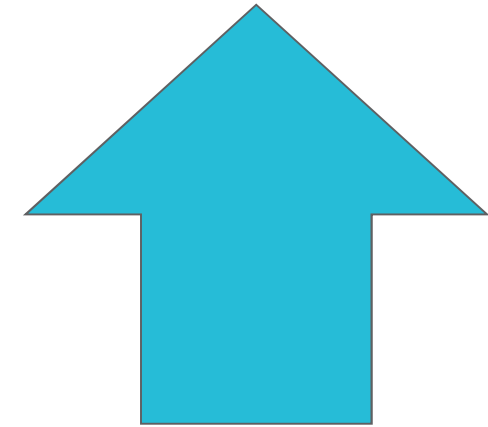
- Demand for shared services in the Nordic countries is driven by demand for IT services
- Educated talent in Iceland can provide complex IT and engineering services that are less cost-sensitive than the highly transactional shared services offerings

Ease expatriate and immigration restrictions



- Immigration would improve ability to import unique specialties and management
- Immigration of lower cost labor can improve supply and reduce costs

Promote quality of living and geological stability of Iceland



- Iceland is rated in top-10 for quality of life in OECD's Better Life Index
- Iceland has a relatively temperate climate for it's latitudinal location
- Iceland has the lowest natural disaster occurrence of the benchmark countries
- Perceptions of cold climate and volcanic activity can be mitigated through marketing

Ideas For Companies To Work Together

Collaborate among companies successfully selling services outside of Iceland to

- Determine services which most likely will be successful
- Build a coalition to increase sales

Collaborate to list Icelandic companies with services that are in demand outside of Iceland

- Companies currently providing services outside Iceland
- Companies that have potential but are operating only in Iceland.

Coordinate to determine companies' strengths and potential for expanding existing services

Leverage existing customers of Icelandic companies to sell Icelandic companies' potential

- Develop marketing campaigns for target markets that use testimonials from these companies
- Coordinate with relevant industry conference organizers to showcase presentations of customers using Icelandic company services

Sponsor an incubator capability for companies seeking to start new companies or market services in other countries

Identify relevant experts such as professional international marketing consultants who can help jump-start business

Summary – Leverage Strengths To Expand Service Businesses

Expansion should focus on complex services targeted at niche clients

- To compete where others are weaker
- To build relationships based on success

Iceland's strengths can be leveraged

- To expand data centers, IT services, and IT development
- To expand geothermal, hydroelectric, fishery, shipping, and other expertise

Competitiveness can be improved

- By focusing on ways to access highly qualified employees locally and from other countries
- By relaxing immigration impediments

Companies can collaborate to accelerate progress

- By helping identify target companies
- By sponsoring incubators for businesses
- By coordinating on overseas marketing
- By partnering with Promote Iceland