

Sourcing Location Guide: United States

By Jim O'Connor, Martijn Geerling and Penny Weller

Executive Summary

The maturation of the GBS landscape worldwide has encouraged many companies to take another look at lower-cost locations in the US for business process sourcing. An emphasis on customer service by large companies, growing adoption of the GBS model by mid-tier and nonprofit organizations, and favorable tax incentives have made these locations more attractive for certain kinds of work, including complex and higher-value processes. Increasingly, US-based centers are also being used for transforming, improving and standardizing processes before being migrated offshore. The nation's service sector has experienced exceptional growth, now hosting service centers for more than 450 companies. Today, the US ranks 25th among 42 countries for GBS delivery centers, as determined by The Hackett Group's sourcing location methodology.

Midsized metro areas and rural communities in the United States have become viable choices for establishing service delivery centers, with advantages that include turnover rates that are significantly lower than offshore; proximity to customers and headquarters; cultural affinity; business knowledge; and reasonable real estate and infrastructure costs. Also, the labor-cost difference between US and prime offshore locations has been diminishing.

Furthermore, a backlash against the offshoring of jobs has made job retention "at home" an intangible source of value for US companies. Some states have used tax and other incentives as motivations to create or retain service-center jobs as an antidote to high unemployment rates.

US cities evaluated for this report

West	East	Midwest	South
Phoenix, Arizona	Jacksonville, Florida	Grand Rapids, Michigan	Louisville, Kentucky
Tucson, Arizona	Tampa, Florida	Lansing, Michigan	Tulsa, Oklahoma
San Bernardino, California	Atlanta, Georgia	Minneapolis, Minnesota	Oklahoma City, Oklahoma
Longmont, Colorado	Syracuse, New York	St. Louis, Missouri	Knoxville, Tennessee
Eugene, Oregon	Charlotte, North Carolina	Omaha, Nebraska	Memphis, Tennessee
Salt Lake City, Utah	Allentown, Pennsylvania	Akron, Ohio	Austin, Texas
Spokane, Washington	Philadelphia, Pennsylvania	Cincinnati, Ohio	Dallas, Texas
	Richmond, Virginia	Milwaukee, Wisconsin	Houston, Texas
		Green Bay, Wisconsin	San Antonio, Texas

Hackett's location sourcing methodology

To reflect the decision criteria used by companies today to select a destination for establishing Global Business Services centers, The Hackett Group's Global Research Center analyzes 42 countries based on more than 30 key indicators. Five principal dimensions are taken into consideration when calculating factors that may be used to determine location choice. These are:

1. **Economic considerations:** Location choice is primarily determined by labor arbitrage. In addition, office rent, telecom costs and other major cost components are considered.
2. **Business environment:** Ease of doing business, wage inflation, economic health, tax burden and quality of life.
3. **Workforce quality:** Availability and quality of the labor force in the context of factors such as the flexibility and business-friendliness of local labor laws and regulations.
4. **Infrastructure:** Although greatly improved over the last decade, infrastructure quality (office, electricity, transport) may still inhibit location attractiveness when travel time is excessive, services are unreliable or costs are prohibitive. Though weighted to a lesser extent, this dimension is also taken into consideration.
5. **Risk assessment:** Factors that may be hurdles to reliability and costs, such as potential for fraud, risk of political and social unrest, weak protection of data and intellectual property.

Key factors considered in location rankings

Dimension	Category	Metric
Economic considerations (60%)	Labor cost	Annual salary cost (fully loaded for selected finance, HR, IT and procurement positions) in US\$
	Cost of office space	Office rent for Class A office space
	Other cost	Average cost of telecom charges, average flight cost to capital
Workforce quality (20%)	Workforce availability	University workforce availability, total workforce availability
	Workforce quality	Quality of education, labor productivity index
	Rigidity of labor law	Index of ability to hire and fire personnel
	Language availability and quality	Availability and mastery of language skills
Infrastructure availability & quality (10%)	Availability of office infrastructure	Availability of office space
	Availability of general infrastructure	General infrastructure, electricity supply, airport availability
Risk assessment (5%)	Fraud risk	Corruption perception index (CPI)
	Political risk	Political instability index
	Data and intellectual property (IP) security risk	Intellectual property (IP) protection, electronic data protection
	Foreign-exchange rate risk	Index of exchange-rate fluctuation (against US\$)
	Natural disaster risk	Natural disaster risk index
	Quality of judicial system	Enforcing contracts index
Quality of business environment (5%)	General economical climate	Ease of doing business index, wage rate inflation, economic health, tax burden
	Politics and quality of life	Freedom index, quality of life index

Source: The Hackett Group

Business services locations: Attractiveness drivers

US: Location attractiveness and global ranking

Dimension	US	
	Rank	Score
Economic considerations	35	3.03
Business environment	1	4.25
Workforce	4	2.46
Infrastructure	4	3.62
Risks	6	4.06
Overall	25	3.09



US: Strengths and weaknesses

Geographies served: Global
 Type of service: Captives (all services), ITO (all services), BPO (all services)

Dimension	US	
	Rank	Score
+ Quality of life index	2	4.94
+ Office space cost	14	4.51
- Corporate tax	39	1.37
- Labor cost	39	2.07

NOT COMPETITIVE 0.00-1.00 1.01-2.00 2.01-3.00 3.01-4.00 4.01-5.00 HIGHLY COMPETITIVE

Source: The Hackett Group, 2014

KEY FACTS: UNITED STATES OF AMERICA

Capital: Washington, D.C.

Employable population: 155 million

Gross domestic product (PPP): \$52,800

GDP growth rate: 1.6%

Inflation rate: 1.5%

Unemployment rate: 7.3%

Languages spoken: English; Spanish to a lesser extent in some regions

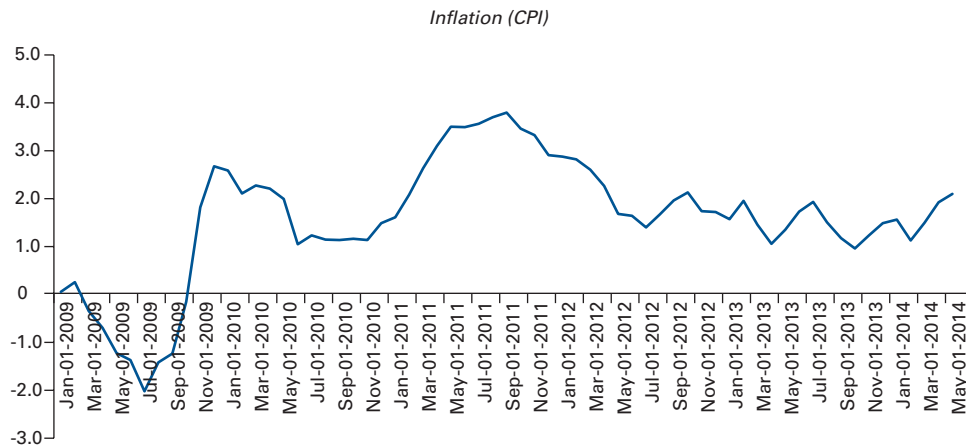
Cost

Labor and operating costs in the US are high compared to Eastern Europe, Latin America and Asia. Still, the US continues to attract GBS centers when the benefits outweigh the costs of delivering business services.

In each region studied, there are a number of cities offering very competitive Class A office infrastructure. In 2014, central business districts posted an average vacancy rate of 16.1%.

For decades, the US's market-oriented economy has been a magnet for foreign investors seeking business opportunities, but the 2008 financial meltdown and its ripple effects continue to be felt. After bottoming out in 2009, the economy began to slowly recover.

US inflation rate (%), 2009-14



Source: Capital IQ

Workforce

The US's labor force of 155 million is projected to reach 164.4 million by 2020. The American workforce tends to be highly educated, particularly in major cities and innovation hubs: 41% of Americans between the ages of 25 and 64 have a college or other post-secondary school education.

The US labor pool is generally older than in offshore locations, and open to innovation and flexible delivery processes. The workforce also tends to be more technologically savvy and productive. Companies with captive centers as well as business process outsourcers consider the US an essential part of their international service delivery network when work is complicated or knowledge-based, requires a high level of verbal communication with customers and internal clients, or when fast turnaround or extensive collaboration is required. Finally, companies concerned about managing risk also look to US locations to diversify their delivery options.

Salaries (in US\$): Top 10 US locations

Cities	Accounting manager	AP clerk	HR manager	HR administration clerk	Systems development manager	Systems analyst
Syracuse, NY						
Jacksonville, FL						
Tampa, FL						
Lansing, MI						
Grand Rapids, MI						
Atlanta, GA						
Allentown, PA						
Green Bay, WI						
Richmond, VA						
Longmont, CO						

Source: The Hackett Group, Robert Half, Mercer & Bureau of Labor Statistics, 2014

Business Environment

Most states have an economic development agency that makes funds or other incentives available for new businesses or business retention. The latter include tax breaks, training grants and assistance with land purchases. There is strong competition between states to attract business. Foreign investments are encouraged through federal government policies, particularly for greenfield investments that create new production capacity and jobs, transfer technology and know-how, or lead to greater presence in the global marketplace. Greenfield investments, which may include expansions or new facilities, often qualify for subsidized loans and other tax incentives from the federal, state and local governments.

The US also provides strong protection and enforcement of intellectual-property rights, a key attraction for companies making large investments in research and development.

The North American Free Trade Agreement (NAFTA) gives US-based companies open access to distribution networks with Mexico and Canada. NAFTA permits investors to not only access the US consumer market but also use their US operations as a base from which to expand into neighboring markets. There is no value added tax (VAT) system, but individual states impose sales or use taxes in addition to income and other taxes (e.g., real and personal property).

Infrastructure

More than 500 commercial airports across the US offer flights to Europe and Asia. A reliable communications infrastructure and well-developed, varied ground-transport network are in place. However, the transportation system overall is in need of investment and upgrades to remain safe and competitive. Most of the US's major economic competitors in Europe and Asia are reaping the benefits of improved competitiveness from intercity high-speed rail, for example.

Risks

The US has proven resilient to the immediate aftereffects of natural disasters and terrorism. But states on both coasts increasingly suffer from flooding caused by severe weather, while tornadoes and winter storms can cause disruptions in the midwest. The southwestern US is prone to wildfires in spring and summer, which can also cause business interruptions.

Long-term challenges that may affect stability include inadequate investment in physical infrastructure such as roads and air-traffic control; rapidly rising medical and pension costs; stagnant incomes at lower levels of the economy; and sizable trade and budget deficits.

City Analysis

Beginning on the next page are the top-ranked US cities for establishing GBS centers, as determined by The Hackett Group's location sourcing methodology. One city from each region is detailed, followed by rankings of all US cities assessed.

Notes:

Cost of office space: Rent per sq. ft. per year (in US\$) in Class A space (i.e., new, recently redeveloped or thoroughly refurbished space in a prime location).

Travel cost: Best price available for economy fare from New York City to location city when purchased four weeks before scheduled flight.

CITY PROFILE: SALT LAKE CITY, UT

Population: 1,140,483

Labor force: 798,338

Office cost (Class A, \$/sq.ft./yr.):
downtown: \$27.64; suburban: \$25.44;
average metro area: \$26.21

Vacancy rates: (Class A): downtown:
11.7%; suburban: 8.1%; metro: 9.4%

Airport: Salt Lake City International

Service centers: Rio Tinto, J. C. Penney

Western region: Salt Lake City, UT

Salt Lake City is a notable industrial, banking and transportation center and the location of a large, bilingual (English and Spanish) population. The language skills and educational attainment of its population have helped the city attract domestic and international businesses. Salt Lake City has a well-developed transportation infrastructure, with an international airport, rail connections and interstate highways.

The average office cost is \$20.30/sq.ft. Vacancy rates in Class A space are lower than for any other grade of office space: 8.1% in the suburbs and 11.7% downtown. The unemployment rate in June 2014 was 3.8%.

Forbes's "Best Places for Business and Careers"⁷ ranks Salt Lake City in eighth place out of 200 cities examined. Both the city and the State of Utah offer a wide variety of incentives for business investments.

⁷ *Forbes Magazine's "Best Places for Business and Careers"* looks at the 200 largest metropolitan statistical areas and divisions in the United States. Forbes considers 12 metrics relating to job growth (one year, three years and projected five-year growth), costs (business and living), income growth over the past five years, educational attainment (high school and college) and projected economic growth through 2016. It also factors in net migration patterns over the past five years, cultural and recreational opportunities and the number of highly ranked colleges/universities present. Business costs and educational attainment are given greatest weight in the overall rankings.

CITY PROFILE: GRAND RAPIDS, MI

Population: 1,016,603

Labor force: 711,622

Office cost (Class A, \$/sq.ft./yr.):
CBD: \$17.50-22.00

Vacancy rate (Class A): 17.9%

Airport: Gerald R. Ford International

Service centers: Meijer, Kellogg's

Midwest region: Grand Rapids, MI

Grand Rapids is located about 25 miles east of Lake Michigan. Its economy is driven by health care, education and information technology, as well as furniture, automotive, aviation and consumer goods manufacturing. The city is home to five of the world's leading office-furniture manufacturers. Grand Rapids is home to several colleges and universities.

Gerald R. Ford International Airport, the second-largest airport in the state after Detroit, is situated about 13 miles southeast of Grand Rapids. It offers flights to 23 US cities.

The cost of Class A space averages \$17.50 to 22.00 per sq. ft. in central business districts and \$17 to \$23 in the suburbs. Overall vacancy rates are 17.9% in CBDs and 19.4% in the suburbs. The unemployment rate in June 2014 was 6.4%.

The city is ranked 39th out of 200 locations in Forbes's "Best Places for Business and Careers."

CITY PROFILE: JACKSONVILLE, FL

Population: 1,394,624

Labor force: 976,237

Office cost (Class A, \$/sq.ft./yr): \$19.36

Vacancy rate (Class A): 14.4%

Airport: Jacksonville International

Service centers: Avaya, Blue Cross/Blue Shield of Florida, Georgia-Pacific, Smurfit-Stone, Unisource

Eastern region: Jacksonville, FL

Jacksonville is the most populous city in Florida. Its economy is balanced among various industries such as financial services, biomedical technology, consumer goods and other manufacturing, information services and insurance. It is home to many prominent companies. State and local incentives for job creation and infrastructure enhancements are based on job types.

Jacksonville International Airport, 15 minutes from downtown, offers direct flights to major US cities. As is the case with many airports across the country, the economic downturn caused a decrease in flights and passengers.

The supply of Class A office space is decreasing, forcing rents upward, but only slightly for now. The supply is helped by an overall vacancy rate of 19.7%. Rents average \$19.36 per sq. ft. Unemployment in Jacksonville was 6.6% in June 2014.

Forbes's "Best Places for Business and Careers" ranks Jacksonville at 75 out of 200 locations examined.

CITY PROFILE: OKLAHOMA CITY, OK

Population: 1,319,677

Labor force: 923,774

Office cost (Class A, \$/sq.ft/yr): \$16.28

Vacancy rate (Class A): 18.4%

Airport: Will Rogers World Airport;
Wiley Post

Service centers: American Cancer Society,
Hertz, Hospital Corporation of America

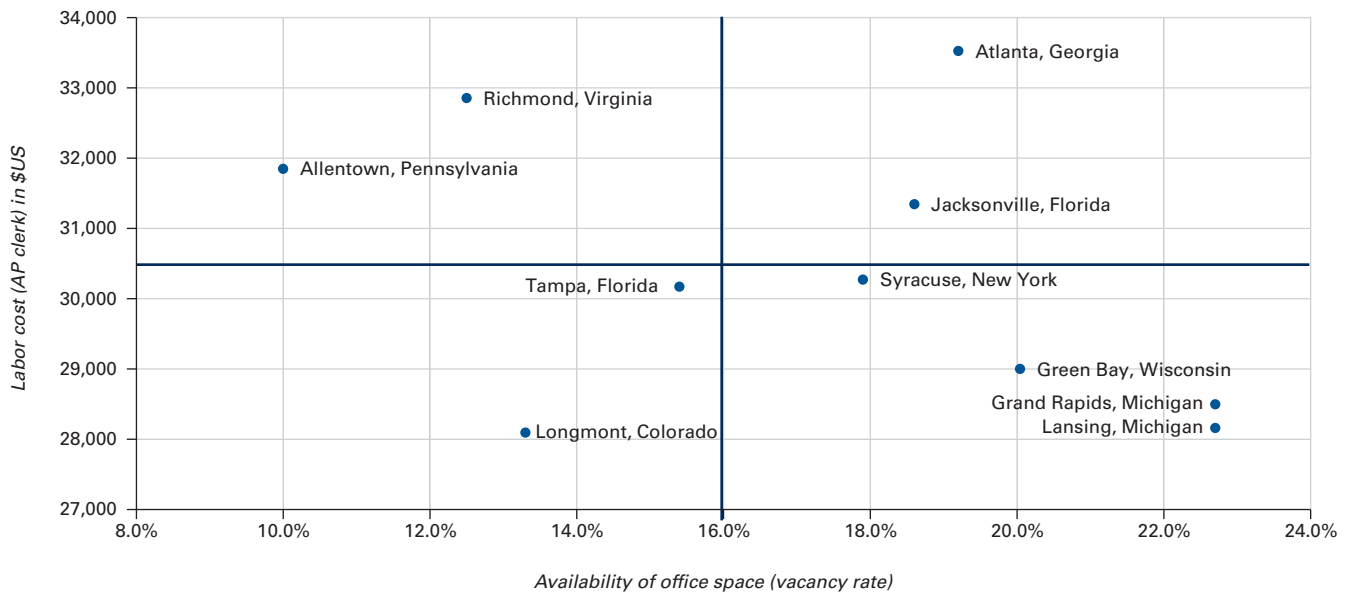
Southern region: Oklahoma City, OK

Oklahoma City is the capital and largest city in Oklahoma. Its transportation infrastructure is the backbone of the city's business environment: two of the nation's most important highways, Interstate 40 and Interstate 35, meet in downtown Oklahoma City. Oklahoma City is served by Will Rogers World Airport and Wiley Post Airport. Will Rogers, the state's busiest, is served by six major carriers providing nonstop flights to 19 destinations.

Home to several colleges and universities, Oklahoma City is both a low-cost place to live and to run a business. The city is ranked seventh out of 200 in Forbes's "Best Places for Business and Careers." It has some of the lowest taxes and best business incentives in the nation.

The cost for office space ranges from \$11.00 to \$24.00 per sq. ft. The vacancy rate in downtown is 18.4%. Oklahoma City's unemployment rate was 4.5% in June 2014.

Regional: Workforce availability (university graduates) & office availability (vacancy rate)



Source: The Hackett Group, 2014

Location ranking: Overall attractiveness

US rank	Global rank	Cities	Economic considerations	Quality of business environment	Workforce quality	Infrastructure	Risk assessment	Total score
1	38	Syracuse, NY	3.32	4.25	3.77	3.97	4.06	3.56
2	43	Jacksonville, FL	3.24	4.25	3.77	4.03	4.06	3.52
3	44	Tampa, FL	3.29	4.25	3.77	3.75	4.06	3.52
4	55	Lansing, MI	3.41	4.25	2.83	4.24	4.06	3.45
5	56	Grand Rapids, MI	3.40	4.25	2.83	4.24	4.06	3.44
6	57	Atlanta, GA						
7	62	Allentown, PA						
8	63	Green Bay, WI						
9	64	Richmond, VA						
10	66	Longmont, CO						
11	68	Spokane, WA						
12	69	Charlotte, NC						
13	71	Akron, OH						
14	72	Dallas, TX						
15	74	Cincinnati, OH						
16	75	Milwaukee, WI						
17	78	Knoxville, TN						
18	79	Tulsa, OK						
19	80	Louisville, KY						
20	81	Omaha, NE						
21	82	Memphis, TN						
22	83	Tucson, AZ						
23	84	Eugene, OR						
24	85	Oklahoma City, OK						
25	86	St. Louis, MI						
26	89	Salt Lake City, UT						
27	92	Philadelphia, PA						
28	93	Phoenix, AR						
29	94	Minneapolis, MN						
30	95	San Antonio, TX						
31	105	San Bernardino, CA						
32	106	Austin, TX						
33	108	Houston, TX						

Source: The Hackett Group, 2014

Related Hackett Research

Optimizing Decisions on Business Services Locations, The Hackett Group Book of Numbers™ Research Series, Vol. 18, No. 1

"Hackett Sourcing Location Guide: Brazil," July 2014

"Hackett Sourcing Location Guide: Latin America," October 2013

"Hackett Sourcing Location Guide: Costa Rica," October 2013

About the Advisors

Jim O'Connor

Global Practice Leader, Global Business Services and Finance Advisory Programs



Mr. O'Connor has over 20 years of both industry and consulting experience focusing on finance transformation. He has particular expertise in strategy and organization design, business process design, strategic cost reduction, reporting, planning and performance management, BI and financial systems, shared services and outsourcing. In these roles, he has advised client executives in a wide range of industries including consumer products, financial services, higher education, manufacturing, retail, and utilities. Previously, he led the CFO Services practice at North Highland, a global consulting firm, and before that, focused on finance transformation and strategy at Archstone Consulting, now a part of The Hackett Group.

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Mr. Geerling has 15 years of consulting experience in strategy development, business process redesign and implementing sourcing strategy, both shared services and outsourcing. During this time he has worked with business services organizations of leading global companies across various industries. Prior to joining The Hackett Group, he worked at KPMG Consulting assisting clients in Europe and Asia with finance-function transformation, business process redesign, and risk and compliance management.

Penny Weller, PhD, CMA

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A Six Sigma Black Belt and certified master trainer, Dr. Weller has a wealth of experience in global business/shared services and accounting and finance. Before joining Hackett, Dr. Weller was a senior executive in shared services at Pfizer Inc. (formerly Pharmacia) for over 30 years. There, her management responsibilities included account-to-report, consolidations, reporting, purchase-to-pay, cost and inventory accounting. In addition to her shared services expertise, Dr. Weller has managed multiple large-scale merger and system transitions, including process improvement, activity-based management, and balanced scorecard design and implementation.

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Founded in 1991, The Hackett Group was acquired by Answerthink, Inc. in 1997. Answerthink was renamed The Hackett Group, Inc. in 2008. The Hackett Group has global offices in the United States, Europe and Asia/Pacific and is publicly traded on the NASDAQ as HCKT.



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