



moneycorp 

Growth and evolution in the  
**Services Sector**

# Addressing the challenges and opportunities of the new commercial landscape

It is often said that in the middle of difficulty, lies opportunity. Adversity breeds innovation, and we are lucky to have seen many of our clients at moneycorp adapting their models and supply chains, developing new ways of working and inventing new products and ways of caring for their staff, communities and customers. In our guide discover how business support services are evolving to face new market conditions.

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# Bracing for change



## IT and BPO services slowdown

As companies were forced to move quickly to facilitate wholesale homeworking, major IT projects have been put on hold. This has had a significant impact on the IT services sector, as demonstrated by the recent announcement that IT services and consultancy provider Accenture had cut 8% of its staff, amounting to 900 jobs, due to the disruption caused by Covid-19. Overall, the global IT services and Business Process Outsourcing (BPO) sector dropped by 5%. This was largely driven by a reduction in outsourcing, which fell by 21% in the EMEA region. Businesses everywhere are feeling the pinch and bracing for further change, which means that decisions about major projects are being delayed until the way forward looks clearer. It may take some time to see the true impact – there could be a resurgence as companies pivot towards agile and resilient solutions and remote working infrastructure, but the air of caution could continue for some time, leaving some projects on hold indefinitely.



## Pressure on the middle man

Companies that use online technology to deliver real-world products and services took a significant hit. These middleman services don't produce anything directly, but connect users with available services. Uber was forced to cut thousands of office-based jobs as demand dried up and AirBnB let go of 1,900 people - a quarter of its workforce. Yelp faced similar difficulties after restaurants and bars were forced to close and WeWork, which provides shared office space from rented offices, lost a bail-out deal from Softbank. The survival of such services relies on the resurgence of the associated services in the real world, or a rapid repositioning to virtual or post-pandemic alternatives.

In some ways, the services sector proved to be one of the rare success stories during lockdown. The IT industry, notably software and platforms, facilitated remote working and saw a dramatic rise in popularity – video conferencing platform Zoom saw their user numbers skyrocket from 10m to 200m in a single day and Microsoft Teams registered a rise of 40% in a single week. Streaming and gaming services also saw significant increases as consumers under lockdown sought entertainment at home and this had a knock on effect on hardware as sales of gaming consoles also rose alongside subscription services. Fitness apps and online classes also found their moment, from Peloton leveraging their solution to deliver rapid expansion to UK fitness guru Joe Wicks leading PE classes on YouTube and raising significant funds for the NHS. It would be easy to assume with so many success stories that the IT sector is thriving but the future for IT services looks less than certain.





## Secondary impacts

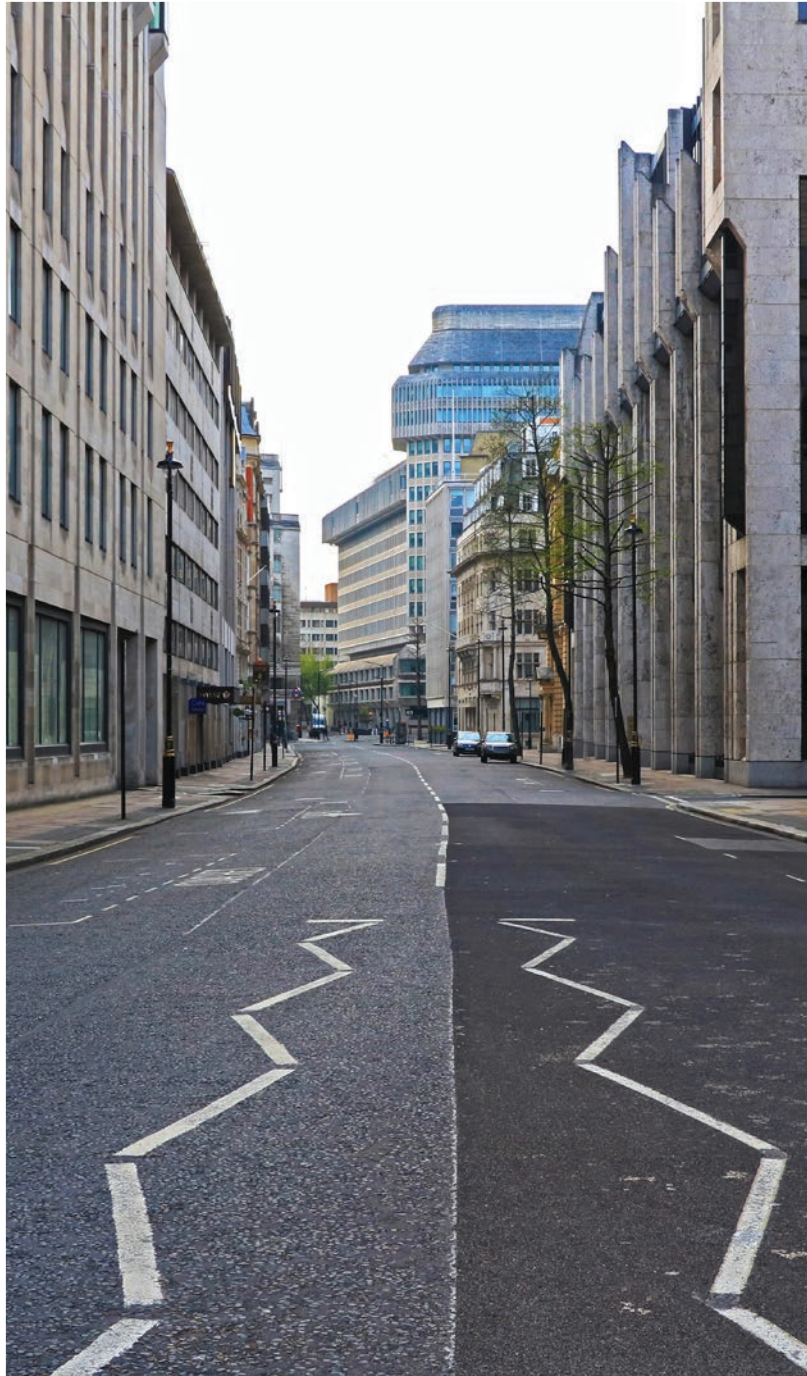
Changes in the IT sector also demonstrate how different sectors within the service industry are interdependent. As companies batten down the hatches and put major IT projects on hold, this has a knock-on effect on the demand for supplementary services such as recruitment and management consultancies, which may have been contracted to manage the logistical aspects of a major installation. Recruiters are facing a particularly challenging situation. Companies with rapid growth may find it costly to scale up in time, piling on pressure throughout the services supply chain at an already challenging time. Some areas within IT are clearly booming, leading to a rise in vacancies, but overall vacancies are down. This means some staff may still be on furlough and as well as recruitment companies working with fewer people, there are more applications per vacancy to plough through. In addition, there is a skills shortage in technology that may stall growth.



## Looking beyond lockdown

The IT sector demonstrates the importance of looking beyond initial challenges and opportunities and taking a strategic approach to future changes. In the long-term, organisations that take a sustainable approach will best placed to survive. For example, while working from home may remain widespread for now, this may drop suddenly with a vaccine in found and workers return to their offices in droves. The future is far from certain, and sentiment and cultural change will be important. In some cases, the pandemic may have caused a permanent change, whether that's from office working to a remote-first culture or from the high street to online shopping, causing a further rise in demand for ecommerce solutions.





## BUSINESS SUPPORT SERVICES EVOLVE TO FACE NEW MARKET CONDITIONS

Businesses have been examining every aspect of their expenditure and operations; initially this put business services in a perilous position as organisations went into survival mode and paused activity from management consultancy to recruitment and marketing services. As businesses eased out of lockdown, some activity has resumed but it's clear that business service providers are under pressure to prove their worth.

Some sectors are unfreezing recruitment, but as widespread redundancy begins to bite, recruiters are facing an administrative challenge fielding record numbers of applications for each vacancy at a time when pricing may be an issue for some businesses.

Major projects may resume as the UK eases out of lockdown, but it's likely that the remit and budget may have been re-examined in light of the dramatic changes to the commercial landscape.

Demand is rising for marketing services as companies seek to pivot existing messaging to accommodate changes to the market and consumer culture but as elsewhere, budgets are under intense scrutiny and organisations are looking for direct ROI.

Accountants have remained busy throughout lockdown and are likely to have increased workloads in the future, putting pressure on firms seeking to balance workload with plans for growth or long term development.

Legal services may have been stripped down to the essentials during lockdown, but changes to the economic landscape mean that demand may be rising for work in mergers and acquisitions as industries consolidate to survive.



# What about Brexit?

While there has been a lot of focus on the impact of Brexit on physical imports and exports, there are also implications for the services sector. A new regulatory environment and the need to comply with UK and EU guidelines could cause delays, more red tape and spark a need for an overseas office. While this can open up wider opportunities for the service sector, it does mean an added element of currency costs and an increased FX risk.

## Setting up an office in the EU to counteract the effect of Brexit

Parliament launched an enquiry at the end of January into London's prospects as a financial centre. On the surface, the prospects may not look good – several major organisations have moved their headquarters to the continent in order to retain the benefits of EU membership. A report from Bloomberg highlighted that as much as GBP61bn worth of insurance business alone is moving from the UK to Europe. Developments in Fintech may serve to redress some of the balance, but beyond London and the banking sectors, many other companies have moved or are looking to set up an office in the EU in order to avoid facing trade barriers in the future.

## Advantages of an international office

There are a number of advantages, including greater control over your business activities in this area. A local office provides an indication to overseas customers of your commitment to their requirements and can also provide a means to deliver personalised customer support. Companies making the move include many in the service sector such as media companies, IT, advertising, life sciences and health. In addition to cushioning some of the impact of Brexit regardless of whatever deal is reached, an overseas office can provide a new base for further international expansion.

## Practical considerations

There are a lot of issues to consider when setting up an international office. On top of the running costs, there are local taxes, regulatory requirements and employment laws to take into account. When it comes to staffing the office, you may want to balance the team with someone from the UK office with the product and brand knowledge with local team members who can offer local market and cultural understanding. This can be particularly important if you are relocating a service business that relies on expertise and a certain level of brand cohesion. If you're looking to employ local staff, consider the availability of the skills you require in the region you wish to situate the overseas office and whether you may also need to bring in further staff from the UK or further afield.

## International payroll

If you're planning on sending members of your UK team to either launch or run the UK office, you'll need to consider the costs and benefits of paying in sterling or local currency. The key is to ensure that staff aren't losing out due to the currency exchange, but at the same time it's important to limit the costs on the company. UK staff may prefer to continue to be paid in sterling if it's a short-term posts and they have financial commitments at home so it's worth consulting with your team. If you're paying local staff then an international payroll will be required; using a currency specialist can help you manage those payments alongside other international running costs. For staff on an overseas placement, a currency specialist can also help with managing currency costs.



# Managing currency risk

All of the changes facing service sector at the moment may be exacerbated by the pressure on the bottom line caused by currency fluctuations. This currency risk can be managed with a currency strategy using a variety of specialist FX tools.

## STEP ONE: UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your balance sheet and consider what fraction of overall incoming and outgoing funds is held in currency, because this will indicate your measure of risk. You should consider where the market may be growing or shrinking and where the future opportunities lie. In trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

## STEP THREE: SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market. The additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.

## STEP TWO: UNDERSTAND THE CHOICES AVAILABLE

A free currency audit from the expert corporate team at moneycorp allows you to view your current risk and assess future exposure. The FX currency risk report includes an overview of currency fluctuations against the pound for markets relevant to your business, estimated costs and potential savings for future international payments.

### Spot Contracts

If you've been managing your international payments on an ad hoc basis to date, you are likely to have been using a spot contract. This applies the exchange rate on the day of purchase for receipt within two working days. This presents a high risk because of the unpredictable nature of the FX market.

### Market Orders

To target a specific exchange rate, a market order can be placed and the currency is exchanged automatically if that rate is reached. This method includes some risk, because there are no guarantees that the desired rate is reached but you can specify both minimum and maximum rates in order to limit potential losses.

### Forward Contracts

For budget certainty, a forward contract allows you to fix a prevailing exchange rate for a set period of time. The risk is that the rate may improve compared to the fixed rate but a fixed rate allows for clear margins and less pressure on prices. This can work well for companies with accurately forecast overseas costs. Forward contracts may require a deposit.

### Currency Options

Currency Options require an upfront premium for the right but not the obligation to exchange a specified amount of currency at a known rate for a known date in the future. Options can be structured so that there is no upfront premium payable but this will involve increased obligations and/or risks. Please note that option-related products are regulated investment products which can carry a higher level of risk than forward contracts.





## Controlling currency and international payment costs

Fluctuations in the exchange rate have an impact on the cost of international payments. Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference which is why moneycorp works with a panel of 20 liquidity providers to get our clients the best available rates. If you're working across multiple markets around the world, then it may be time consuming to set up and deliver the broad range of currency transactions required and to keep track of cash flow when working in multiple currencies.

### **MANAGING INTERNATIONAL PAYMENTS**

As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with an online platform for managing international payments. Features of the platform include

- Live statements
- Progress updates on international payments
- The facility to make payments in multiple currencies
- Management controls

The moneycorp online account doesn't add too many additional layers of administration or require staff with specialist expertise, but does provide the transparency and checks and balances that allow for the close management of currency costs.







To find out more about how moneycorp could help manage your foreign exchange and international payments:

**Email** [corporateenquiries@moneycorp.com](mailto:corporateenquiries@moneycorp.com)

**Telephone** + 44 (0) 207 823 7800 and quote 'services whitepaper'

*(Monday-Friday 7:30am – 6:00pm)*

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