Everest Group
RESEARCH

Evolution of the GIC Model: Do GICs Really Add Value Beyond Cost Arbitrage?

Global Sourcing (GS)
Market Report: October 2014 – Preview Deck

EGR-2014-2-PD-1254

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Background and methodology of the research

Background of the research

- Global In-house Centers (GICs) or shared services centers add value to parent organizations by consolidating delivery of services, often at a large scale, and offer cost and operational advantages
- GICs look to play a more strategic role within the organization and aim to create value beyond arbitrage
- While expressing their value addition, GICs find it difficult to express all aspects of value addition, and find it even more difficult to quantify their impact on the parent organization
- This report aims to help GICs in their maturity journey by presenting value addition levers and frameworks to help quantify the business impact created

The report presents views on the following topics

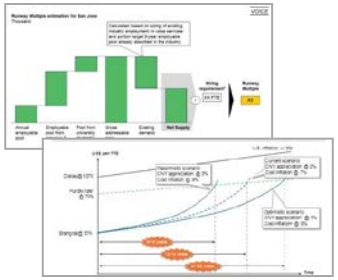
- What are the areas where GICs add value to the parent?
- How are GICs perceived by parent – as a low-cost set-up or strategic entity?
- What is the current state of the GIC market in terms of maturity of model?
- How do leading GICs articulate and substantiate their value?
- What is their approach to measurement and quantification?
- What are the underlying mechanisms/processes that GICs have put in place to facilitate this?
- What can GICs do better to present their true business impact to the parent?

For this research, we have leveraged our proprietary frameworks on the maturity journey of GICs, value addition levers, and quantification of business impact. We interviewed shared services center leaders and global sourcing heads of over 15 organizations in Asia, Europe, and United States.

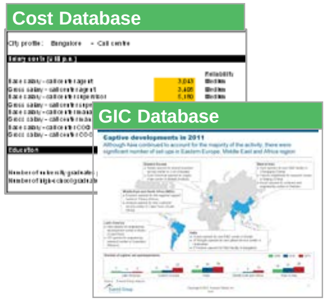
Methodology – Everest Group's proprietary market intelligence, extensive databases, and inputs from market participants formed the foundation for this report

- Proprietary intelligence
- Market thought leadership
- Actionable and insightful research

1 Robust definitions and frameworks – Global in-house Center (GIC) value addition, GIC cost competitiveness, global sourcing decisions

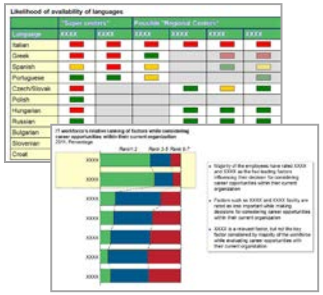


2 Proprietary databases (global in-house centers, service providers, market activity, cost/labor, and transaction intelligence)



3 Diverse set of touch-points with key global- services stakeholders for on-the-ground perspectives

4 Fact-based research adequately informed by deep domain expertise and experience



- Everest Group undertook a study on GIC business impact quantification for NASSCOM which was presented at the Annual NASSCOM Conclave 2014 in Pune. The interviews conducted and information gathered for the study have been leveraged for this report
- A dedicated team for global sourcing research, comprehensively supporting all location-related requirements of clients (information, strategy, tracking, etc.)
- More than 20 years of advising clients on global sourcing decisions spanning strategy, optimization, and implementation
- Executive-level relationships with buyers, service providers, country/industry associations, and other industry stakeholders

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Overview and abbreviated summary of key messages

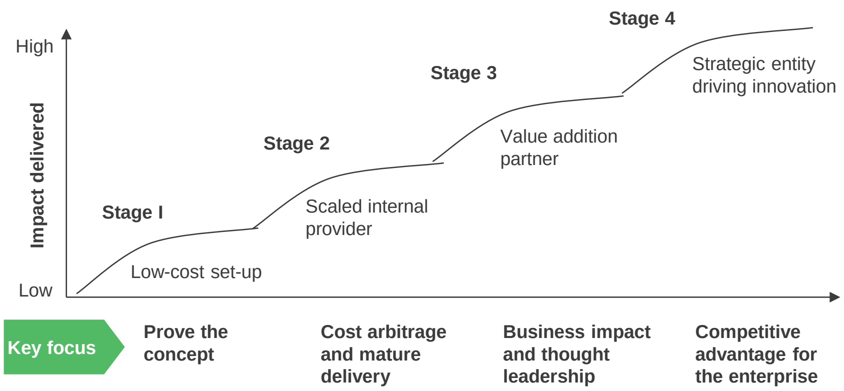
As GICs look to play a more strategic role within the organization, it becomes crucial to identify areas where more business impact can be created in addition to just cost arbitrage. It is also equally important to articulate, quantify, and communicate the value addition to the parent organization.
This report assesses the current state of the GIC market in terms of maturity of model and aims to help GICs in their maturity journey by identifying value addition levers and providing a framework to help quantify the business impact created

Some of the findings in this report, among others, are:

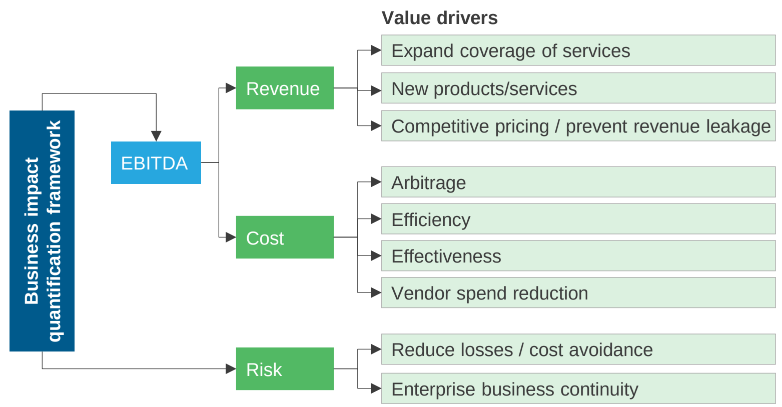
GICs are evolving to a more strategic role within the organization	• GICs are on a journey to evolve from low-cost delivery centers to strategic entities within their organization. Evolution to a strategic partner requires tweaking the GIC operating model on a number of dimensions. While many mature GICs exhibit some of these attributes, few have approached their evolutionary journey in a holistic fashion
Quantification of value addition helps GICs accelerate the ticket to play	• Defining "value created" and identifying methods to measure value addition is a puzzle for most GICs. To measure business impact, GICs need to design frameworks to quantify impact and define metrics for each value driver • At present, measurement of GICs' value addition lags significantly behind the actual value addition
Most GICs have realized just a fraction of their potential business impact	• For most of the GICs, actual business impact realized is only a third of the best in-class GIC benchmark. Best-in-class GICs create six to eight times incremental value beyond arbitrage, as compared to incremental cost savings
Recommendations for GICs and enterprises	• GICs should shift the mix of activities towards higher business impact generating ones, especially activities which lead to increase in revenue • GICs and parent organizations should identify and institutionalize metrics to capture the full spectrum of activities that the GIC is targeting/delivering to the parent

This study offers four distinct chapters providing a deep dive into the current state of the GIC market in terms of maturity of model and the quantification of business impact; below are four charts to illustrate the depth of the report

Stages of GIC evolution



Value addition quantification framework



Quantification by best-in-class GICs

GIC incremental business impact delivered
Annualized incremental impact; US$ million

Recommendations for GICs and enterprises

Source: Everest Group (2014)

GS research calendar

Published | Current

Topic	Release date
Global In-house Center (GIC) Landscape in Malaysia and Trends in Offshore GIC Market	October 2013
Global Locations Compass – Poland	November 2013
"De-mythifying" Location Concentration Risk – Realities Behind Common Myths of Location Concentration Risk	November 2013
Global Locations Compass – Mexico	December 2013
Hyderabad IT-BP Sector Emerges Unscathed from the Telangana Movement	December 2013
Global In-house Center (GIC) Landscape Annual Report 2013	April 2014
Global sourcing webinar: Cost Competitiveness of Global In-house Centers	May 2014
GIC Landscape in India – Three Decades of Value Creation for Global Enterprises, Geared Up to Deliver More	September 2014
Thematic report: Evolution of the GIC Model: Do GICs Really Add Value Beyond Cost Arbitrage?	October 2014
Thematic report: Cost Competitiveness of Global In-house Centers	Q4-2014
Viewpoint: Hybrid sourcing model	Q4-2014
GIC landscape report: BFSI	Q4-2014
GIC landscape report: Engineering Services/R&D	Q4-2014
Viewpoint: Global Business Services	Q4-2014

Additional GS research references

The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **Global In-house Center (GIC) Landscape in India – Three Decades of Value Creation for Global Enterprises, Geared Up to Deliver More** (EGR-2014-2-R-1225); 2014. This report provides a deep dive into the GIC landscape in India and an analysis of the trends in the last 42 months (2011 to H1 2014), and compares them with the trends within the overall GIC activity in India. The research also brings out key insights about the Indian GIC market across key cities, verticals, and functions and concludes with an assessment of the strategic opportunities for India-based GICs

2. **Global In-house Center (GIC) Landscape Annual Report 2014** (EGR-2014-2-R-1097); 2014. This report provides a deep-dive into the overall GIC landscape and the yearly update of the GIC market in 2013, compared to the last two years. The report also provides assessment of strategic priorities for GICs

3. **The Classic Sourcing Model Conundrum - Global In-house Center (GIC) vs. Third-party Provider** (EGR-2013-2-R-0875); 2013. This report discusses the considerations involved in making a sourcing model (GIC vs. third-party provider) decision and provides pointers for a robust comparison of the two models. It also covers prevalent sourcing model configurations and their applicability to various buyer situations

For more information on this and other research published by Everest Group, please contact us:

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