How Cost Competitive are Global In-house Centers (GICs)?

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

EGR-2014-2-PD-1256

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1 Banking, financial services, and insurance

Background and scope of the research (page 1 of 2)

Background of the research

Global In-house Centers (GICs) are an integral component of the global services market. The model is established, growing, and continues to diversify across multiple dimensions. Almost 200 GICs have been set up across the globe in the last 30 months (2012-H1 2014), while only a handful (<10) have been divested. Adoption of the model has spread to a wide range of industry "verticals" and service functions. From a geographic perspective, what started as an India-centric model is now well-established in most emerging economies (South East Asia, Central & Eastern Europe, Latin America, and parts of Africa). In addition, established GICs are also focusing on delivering value beyond arbitrage-led savings, with many GICs increasingly focusing on driving more efficiency (e.g., productivity savings) and effectiveness (i.e., business impact) in their delivery scope. Additionally, several GICs are also playing broader non-delivery roles for their parent organizations (e.g., managing service providers and driving product innovation for emerging markets).

Despite growth and widespread adoption, there are apprehensions about the viability of cost arbitrage offered by GICs. Also, GICs face stiff competition from service providers as another alternative for offshoring. The companies are often in quandary over the choice of setting up GICs or outsourcing to service providers, as well as their financial implications. There is a need to understand the extent of cost competitiveness offered by GICs.

Background and scope of the research (page 2 of 2)

Scope of the research

This research investigates the cost competitiveness of GICs by evaluating the following dimensions:

- Cost competitiveness of GICs with source markets
  - Current savings in key delivery locations (Brazil, China, Costa Rica, Czech Republic, India, Malaysia, Mexico, Philippines, Poland, and South Africa)
  - Current savings in key functions (contact center, IT-ADM, judgment BPO, KPO/analytics, and Transactional BPO)
  - Sustainability of cost competitiveness across source markets (i.e., United States and United Kingdom)

- Cost competitiveness of GICs with service providers
  - Comparison between GIC operating costs and service provider pricing
  - Impact of efficiency levers on cost competitiveness
  - Total Cost of Ownership (TCO) analysis

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Everest Group RESEARCH

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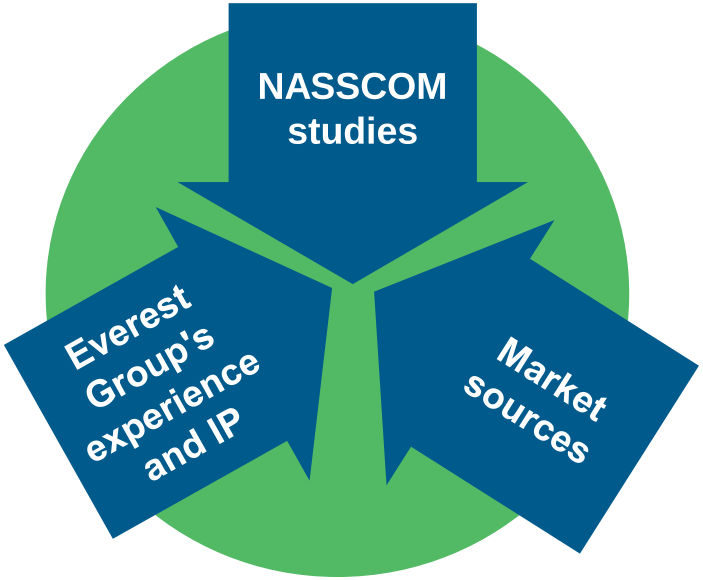
We have leveraged multiple market sources for this report

- Studies on cost competitiveness of GICs, conducted in 2012 and 2014 (in collaboration with NASSCOM)
- Data collection and interviews with GIC stakeholders



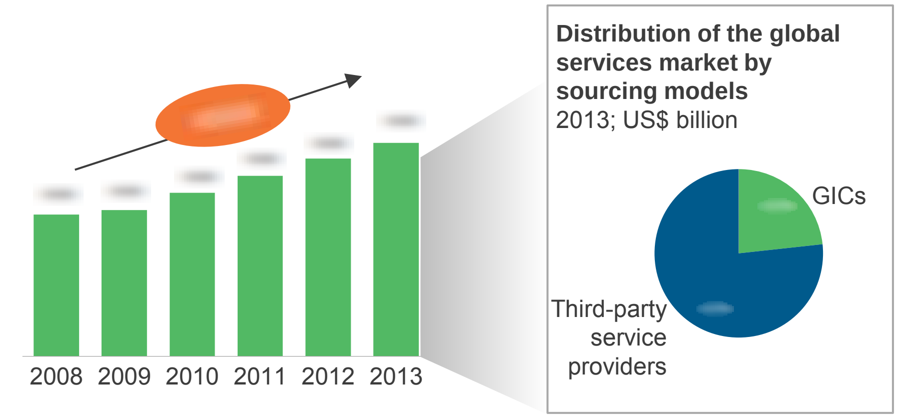
- GIC database, covering information related to size, functional maturity, and locations
- Other proprietary tools and IP (e.g., location database, GIC database, and cost models)

- To refresh existing IP and address gaps (as needed)
- Sources include:
  - Recruiters
  - Industry experts
  - Alumni from companies

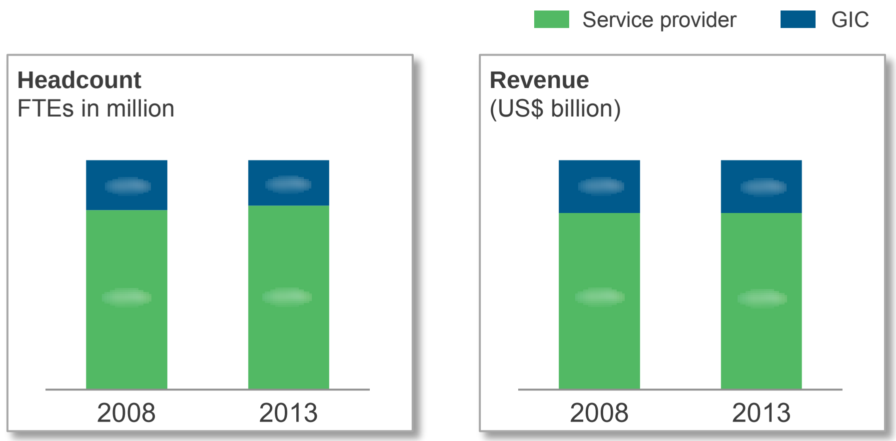
Research methodology anchored on primary research

This research provides an overview of the GIC landscape

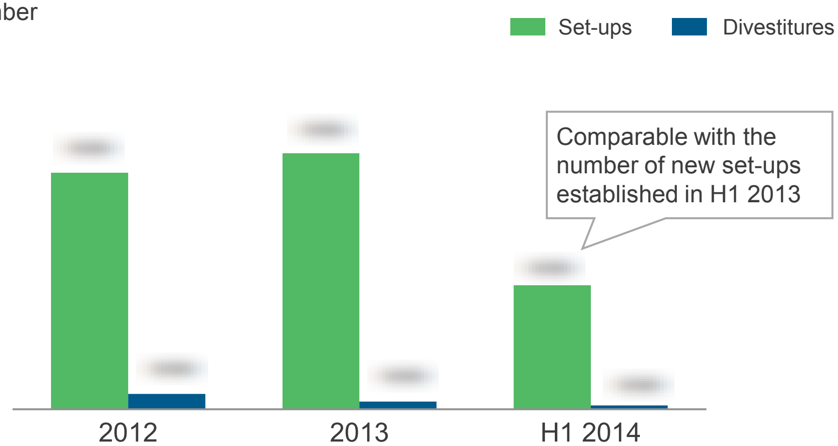
Global services market
2008-2013; US$ billion



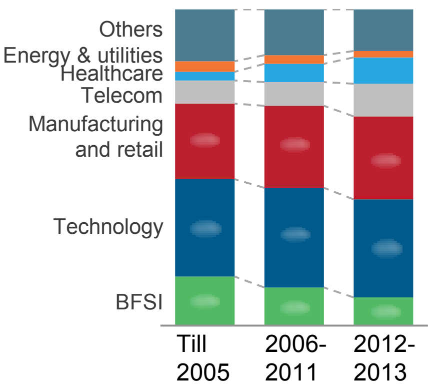
Global services market size (2008-2013)



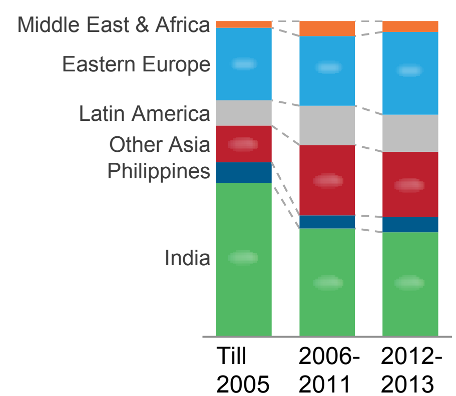
Number of set-ups and divestitures of offshore GICs of leading global buyers
Number



Distribution of new GIC set-ups by industry vertical
Percentage



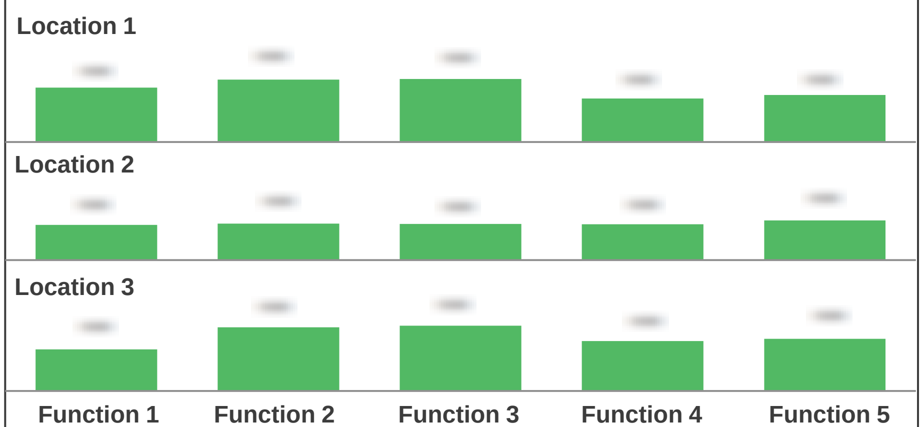
Distribution of GIC set-ups by delivery geographies
Percentage



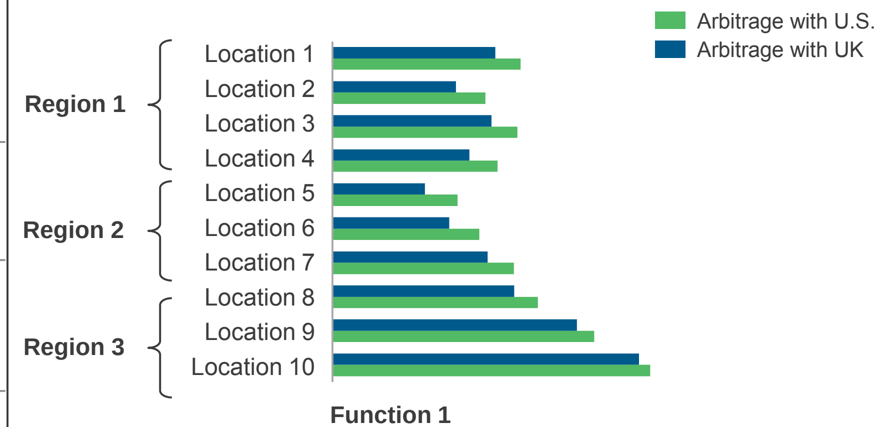
Source: Everest Group (2014)

The study compares current cost competitiveness of GIC locations with source markets and estimates timelines for which these locations will sustain meaningful cost savings

Typical TCO savings between source markets and GIC destinations
2014; Percentage



Typical TCO savings between source markets and GIC destinations
2014; Percentage



Typical TCO savings between U.S. and GIC destinations
2014; Percentage

		Function 1 2012	Function 1 2014	
Region 1	Location 1	XX-XX%	XX-XX%	↑
	Location 2	XX-XX%	XX-XX%	↔
	Location 3	XX-XX%	XX-XX%	↔
	Location 4	XX-XX%	XX-XX%	↔
Region 2	Location 5	XX-XX%	XX-XX%	↔
	Location 6	XX-XX%	XX-XX%	↑
	Location 7	XX-XX%	XX-XX%	↔
Region 3	Location 8	XX-XX%	XX-XX%	↔
	Location 9	XX-XX%	XX-XX%	↔
	Location 10	XX-XX%	XX-XX%	↑

TCO savings sustainability with U.S. locations
2014; Number of years

Current arbitrage sustainability (base case)
>10 years   5-10 years   <5 years

	Function 1	Function 2	Function 3	Function 4	Function 5
Location 1	X-X	X-X	X-X	X-X	X-X
Location 2	X-X	X-X	X-X	X-X	X-X
Location 3	X-X	X-X	X-X	X-X	X-X
Location 4	X-X	X-X	X-X	<5	X-X
Location 5	X-X	X-X	X-X	<5	X-X
Location 6	<5	<5	<5	<5	<5
Location 7	X-X	X-X	X-X	X-X	X-X
Location 8	X-X	X-X	X-X	X-X	X-X
Location 9	X-X	X-X	X-X	X-X	X-X
Location 10	X-X	X-X	X-X	X-X	X-X

Source: Everest Group (2014)

The report also provides insights on cost competitiveness of GICs and service providers; comparing TCO is more effective than comparing GIC costs and service provider pricing

Key components of operating costs / pricing

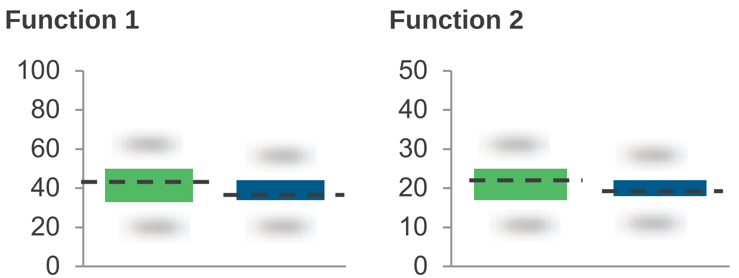
Common to GICs and service providers

Unique to service providers

Operating costs of GICs	Service provider pricing
	Operating margins
	Sales & marketing
Indirect costs	Indirect costs
People costs	People costs

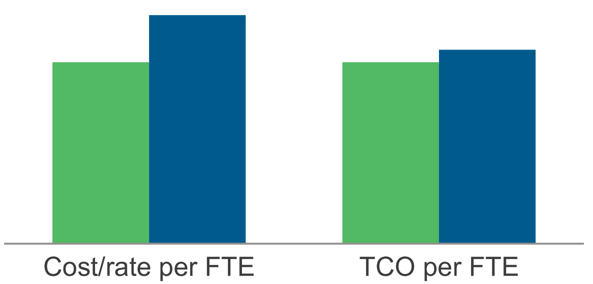
Total annual GIC cost and service provider pricing – blended across delivery pyramid
2014; US$ in '000s

Median
GIC operating cost
Service provider pricing



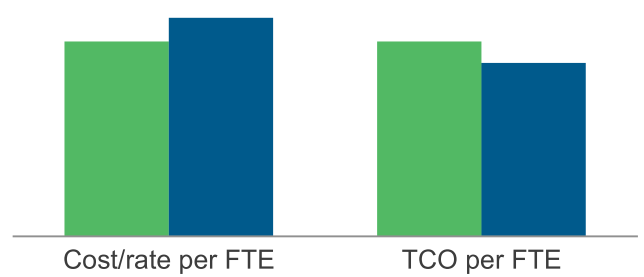
Comparison of GIC and service provider rate and TCO – transaction process
Indexed to service provider

Service provider
GIC



Comparison of GIC and service provider rate and TCO – complex process
Indexed to service provider

Service provider
GIC



Source: Everest Group (2014)

GS research calendar

Published | Current

Topic	Release date
Global In-house Center (GIC) Landscape Annual Report 2013	April 2014
Global In-house Center (GIC) Landscape in India – Three Decades of Value Creation for Global Enterprises, Geared Up to Deliver More	September 2014
Webinar Deck: The Business Case for Impact Sourcing	October 2014
Evolution of the GIC model: Do GICs really add Value Beyond Cost Arbitrage?	October 2014
How Cost Competitive are Global In-house Centers (GICs)?	October 2014
GIC landscape report 1: BFSI	Q4 2014
Global sourcing webinar: Topic TBD	Q4 2014
Thematic report 1: Articulation and substantiation of value addition by GICs	Q4 2014
Thematic report 2: Cost competitiveness of GICs	Q4 2014
GIC landscape report: Engineering services / R&D	Q4 2014
Viewpoint: hybrid sourcing model	Q4 2014
Viewpoint: Organizational models for governing GICs	Q4 2014
Viewpoint: Global business services	Q4 2014
Global offshore GIC annual report	Q1 2015
Viewpoint: Deeper GIC-service provider collaboration – Key imperative to harness value from global sourcing	Q2 2015
Landscape Report: GIC landscape in Technology Vertical	Q2 2015
Landscape Report: GIC landscape among UK firms	Q2 2015

Additional 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. **Evolution of the GIC Model: Do GICs Really Add Value Beyond Cost Arbitrage?** (EGR-2014-2-R-1254); 2014. 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.

2. **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

3. **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

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

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