



**Global Sourcing (GS)
Market Update: October 2010 – Preview Deck**

**India Captive Market Landscape: Challenging Common
Myths and Charting Future Role**

Background of the research



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- The global sourcing market has grown rapidly to reach a size of US\$92-96 billion. Although adoption has spread to other geographies, India still continues to represent the largest geography with 48% share of the industry
- The offshore services market in India was pioneered by captives such as Texas Instruments and GE in the late 1980s and early 1990s. The ten-year period from 2000-2009 witnessed rapid growth in this segment with a large number of companies setting up/expanding their captive centers. Although companies have also explored and successfully established captive operations in China, Philippines, Central and Eastern Europe, and Latin America, India continues to remain the dominant geography for offshore captives
- However, due to the recent economic crisis and maturing supplier landscape, there is a strong perception that the model is under threat. Stated reasons include captives not delivering value and being significantly more expensive than third-party suppliers
- At the same time, mature users of captives articulate their commitment to the model and reinforce its importance in their sourcing strategy and portfolio
- In addition, our discussions with global sourcing offices of large companies and captive leadership reveal imperatives under way to expand the role of captives and their value proposition
- This research report provides an in-depth analysis of the captive landscape in India based on Everest's proprietary captive database. The report also challenges some of the common myths associated with captives and provides deep insights into their evolving role and value proposition

This research report leverages Everest's proprietary captive database that tracks offshore captives of leading companies

Everest's proprietary captive database

Unique characteristics

- Industry's most comprehensive database on Indian captives
- Tracks captives of leading firms (e.g., Forbes 2000, Fortune 500 companies)
- Database covers 240 captives employing ~300,000 FTEs
- Focus on captives providing offshore delivery of global services – excludes shared services centers serving Indian domestic market

Key dimensions tracked

- Scale (FTE range)
- Industry verticals
- Functions offered (e.g., IT, BP, ES/R&D)
- Parent geographies
- Parent size (revenue range)
- Location of delivery centers

For additional information on Everest's Captive database and purchase inquiries, please e-mail us at: GSTeam@everestgrp.com

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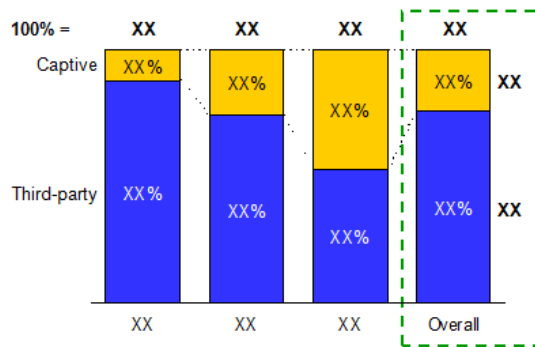
This research report provides an in-depth analysis of the India captive landscape and trends



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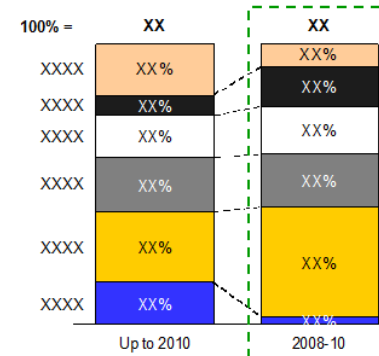
India offshore services market

Distribution of offshore services market by sourcing model
2009; US\$ billion



Industry verticals

Distribution of captives by industry verticals
Percentage



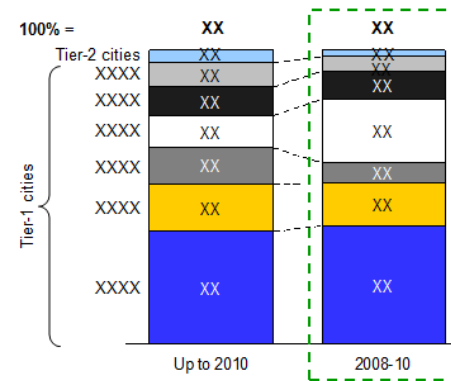
Functions supported

Distribution of captives by functions undertaken
Percentage¹



Key locations

Distribution of captive centers by location
Number



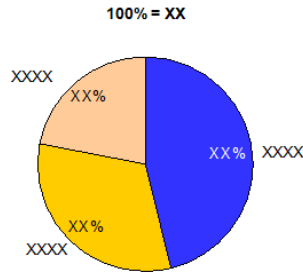
The report also provides a deep dive in four key industry verticals



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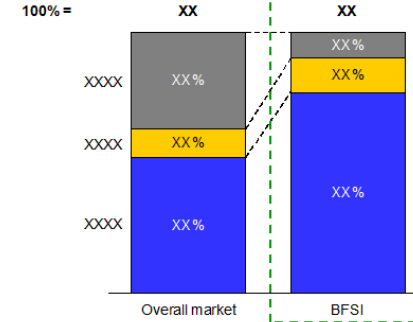
Distribution by sub-vertical

Distribution of BFSI captives by industry sub-vertical
2010¹; Percentage



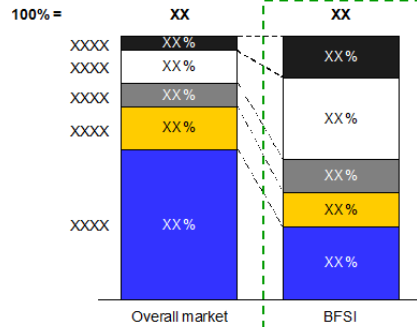
Distribution by parent revenue

Distribution of BFSI captives by parent revenue
2010¹; Percentage



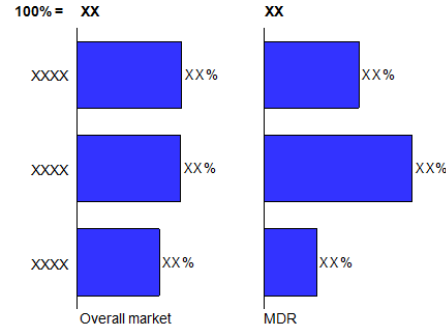
Distribution by scale of operations

Distribution of BFSI captives by headcount – range of FTEs
2010¹; Percentage



Functions supported

Distribution of MDR captives by functions undertaken
2010¹; Percentage



Detailed profiles of Banking, Financial Services, and Insurance (BFSI), Manufacturing, Distribution, and Retail (MDR), Hi-tech, and Software industry verticals

There are some commonly held myths on captives

Myth #1

Captives are significantly more expensive than third-party suppliers

Myth #2

Parents are generally dissatisfied with their captives

Myth #3

Captives are finding it hard to retain people

...leading to the commonly held market perception that...

The captive model is likely to die as most buyers are increasingly moving towards using third-party sourcing

Our work in the captive space led us to challenge these myths

Myth #1: Captives are significantly more expensive than third-party suppliers

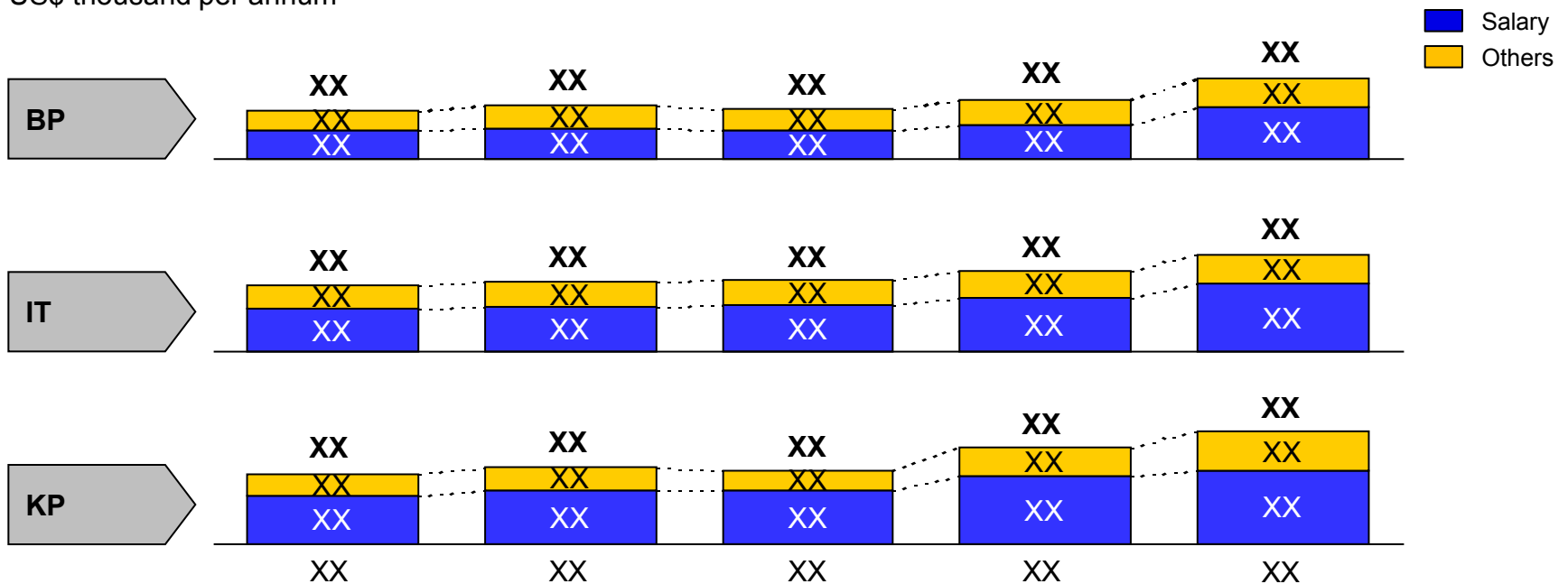


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Everest viewpoint: Some captives have achieved similar cost structures as third-parties although variations exist among captives

Total operating cost per FTE¹
US\$ thousand per annum

EXAMPLE: DELHI/NCR



- On an overall basis, third-party suppliers have XX-YY% lower operating cost than captives
- However, there exist variations among captives with the best-in-class captives having similar operating cost structures as third-party suppliers

1 Includes compensation and benefits, real estate and facilities, telecom and other ongoing costs. Excludes cost of expatriate staff, ongoing travel, governance, and initial set-up costs as well as margins

Note: Everest analysis based on inputs from recruiters, real estate firms, telecom service providers, suppliers, and captive delivery centers

Source: Everest Research Institute (2010)

The report also discusses the evolving role and value proposition of the captive model and its implications on the sourcing portfolio



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Companies can leverage these levels of value creation by specific modes

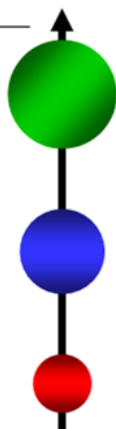


Three levels of value creation

C Strategic impact

B Business impact

A Cost impact



Modes

Create value f

Focus differe

Operat excell

Source: Everest analysis

A combination of market forces and changing expectations is creating a strong need for captives to evolve going forward



- Captives want to move from being providers to partners
- Parent expectations are evolving to expect value beyond cost savings

Captives stepping up

Captives are increasingly feeling the need to evolve about in light of their parents' objectives

Source: Everest analysis

Most large organizations are leveraging both captive and third-party sourcing models, as they seek to maximize value from their offshoring programs



EXAMPLE

BFSI	MDR	Telecom	Hi-tech
<ul style="list-style-type: none"> ▪ American Express ▪ Bank of America ▪ Credit Suisse ▪ Deutsche Bank ▪ Fidelity ▪ Goldman Sachs ▪ HSBC ▪ JPMorgan Chase ▪ RBS ▪ Standard Chartered 	<ul style="list-style-type: none"> ▪ ABB ▪ Boeing ▪ Coca-Cola ▪ Daimler ▪ Deere and Co. ▪ DuPont ▪ General Motors ▪ Honeywell ▪ Tesco ▪ Volvo 	<ul style="list-style-type: none"> ▪ Alcatel ▪ BT ▪ Deutsche Telekom ▪ Etisalat ▪ Ericsson ▪ Motorola ▪ Nokia ▪ Qualcomm ▪ Verizon ▪ Vodafone 	<ul style="list-style-type: none"> ▪ AMD ▪ Cisco Systems ▪ Dell ▪ Freescale ▪ Intel ▪ LG ▪ NTT Data Corp. ▪ STMicroelectronics ▪ Texas Instruments ▪ Xerox Corp.

It is overly simplistic to view the sourcing model decision as being entirely captive or third-party. The sourcing portfolio mix varies across firms and can be structured around two distinct philosophies

Source: Everest Research Institute (2010)

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ERI-2010-2-R-0472

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Additional research references



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

- 1. Market Vista: Q2 2010** (ERI-2010-8-R-0449); 2010. This report summarizes the key trends and developments for Q2 2010 in the global offshoring and outsourcing market.
- 2. Global Sourcing 2.0 – Evolving Global Delivery Imperatives for Outsourcing Service Providers** (ERI-2010-2-R-0439); 2010. This report analyzes the trends and next generation imperatives for suppliers along some of the key components of global delivery – location portfolio, operating model, and talent management. The report presents the global delivery trends with pertinent examples, data analysis and observations, and draws important implications for suppliers as well as buyers of outsourcing services.
- 3. Offshore Locations: Buyers’ Perceptions and Plans for 2011-2012** (ERI-2010-8-W-0438); 2010. Everest conducted a market survey to understand the current location footprint, expansion plans, and perceptions of risk in offshore locations. This whitepaper provides an overview of how buyers are thinking about their expansion plans, specifically with respect to scale and locations. The document also explores typical location risk perceptions of buyer organizations.

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