



How Can Global In-house Centers in the Manufacturing Vertical Partner with Service Providers to Create More Value for their Enterprises?

H. Karthik, Partner - Global Sourcing
Sakshi Garg, Practice Director - Global Sourcing

Copyright © 2015, Everest Global, Inc. All rights reserved.

Executive Summary

Global sourcing is a well-established phenomenon across most industry verticals. Companies in the manufacturing vertical have also embraced global sourcing to a significant extent. In doing so, companies have adopted multiple sourcing models (Global In-house Center (GIC), service provider, and hybrid).

Within the manufacturing vertical, the service provider model is primarily used for delivering technology services, and the GIC model is preferred among business process services. Some manufacturing companies use a hybrid sourcing model (i.e., a mix of GIC and service providers) for business process services. Finance and accounting (F&A) has the largest scale and global sourcing penetration in this vertical.

Most companies in this vertical set out on their GIC journey to generate cost savings and to ensure reliable service delivery. By moving transactional work to GICs, companies achieve the initial set of benefits. However, enterprises are now looking for greater added value from their GICs.

Specifically, enterprises expect GICs to step up in three priority areas: driving process efficiencies and standardization, delivering complex services, and creating revenue impact. Delivering on these priorities requires a significant increase in the GICs' capabilities. At the same time, many of these priorities align well with the core strengths of service providers (e.g., efficiency and productivity improvements).

This alignment presents a strong case for GIC and service provider partnerships to create value for the enterprise. In this context, there are multiple ways in which GICs can use service providers, including consulting support for process improvement, implementation support to drive efficiencies through automation (e.g., Robotic Process Automation (RPA)), co-creating delivery centers through hybrid constructs (e.g., build-operate-transfer (BOT)) and virtual captive, and divesting / carving out work to service providers.

As enterprises mature in their use of sourcing models and strive to generate additional value, we expect GIC–service provider partnerships to significantly increase in the near future.

This research was funded in part by Genpact.

Scope and Methodology

This report is based on our assessment of the adoption of global sourcing among the companies in the following verticals, which are collectively referred to as the manufacturing vertical in this document:

- Manufacturing
- Automotive
- Chemicals
- Energy
- Utilities
- Oil & Gas

This report is primarily based on focused interviews with companies in the manufacturing and related verticals and is augmented by our broader advisory and research experience in this space. Specifically, this report draws upon three inputs:

- Interviews with leading players in these verticals to understand their experiences with sourcing models (GICs and service providers) and their outlook on GIC–service provider partnerships. The mix covered GICs across varying levels of scale/maturity
- Manufacturing vertical–focused findings from two of our cross-industry GIC research surveys: “GIC Value Diagnostic Survey” and “Hybrid Sourcing Survey”
- Our broader research on GICs and our advisory experience in this vertical

Current State of Global Sourcing Adoption in the Manufacturing Vertical

Enterprises in the manufacturing vertical primarily leverage the GIC model to deliver business process services. There are limited instances of the hybrid sourcing approach that utilizes GICs and service providers, and even in those cases, the share of the service provider model is low. Further, adoption of the “pure outsourcing” model is also limited. The preference for the GIC model is primarily driven by the desire to retain more control and end-to-end ownership/visibility of the processes. **Exhibit 1** depicts our analysis of the adoption of the sourcing model among the leading companies in this vertical.

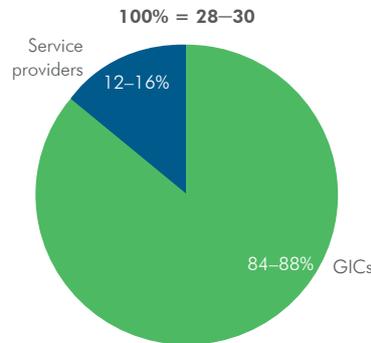
EXHIBIT 1

Distribution of GIC and service provider headcount for BPS

Source: Primary interviews with company executives; Everest Group (2015)

Distribution of GIC and service provider headcount for business process services¹

Number of FTEs; '000s



¹ Analysis of 10 leading players in this vertical

The global sourcing penetration (share of service provider and GIC headcount as a percentage of the overall headcount in associated functions) is lower, implying additional opportunities in this vertical.

Most GICs deliver multiple services; however, F&A services are the most prominent services (by headcount) delivered by GICs across all business process services.

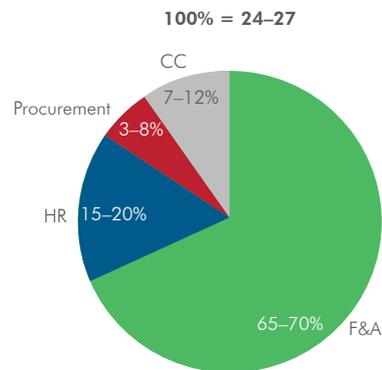
EXHIBIT 2

GIC headcount by function in the manufacturing vertical

Source: Primary interviews with company executives; Everest Group (2015)

GIC headcount by function in the manufacturing vertical¹

Number of FTEs; '000s



¹ Analysis of 10 leading players in this vertical

From a functional global sourcing penetration perspective, F&A is the leader, whereas Procurement and Human Resources have lower penetration, and a significant part of the work remains with the parent organization. Other types of work delivered by GICs include analytics, engineering services, marketing, legal, and IT services.

The majority of the work (75–80%) delivered by GICs is transactional. Likewise, even service providers have been primarily leveraged to deliver transactional and rule-based work (e.g., accounts payable, accounts receivable, and general ledger). The evidence of outsourcing judgment-oriented or customer-facing work to service providers is limited, due to concerns about the potential loss of intellectual property and process expertise and the negative perception of service delivery capabilities for customer-facing processes.

In terms of the locations of GICs, the majority of the work is being delivered from offshore and nearshore geographies, with India, the Philippines, Poland, and Malaysia leading the pack. This also ties in with the key objective for establishing GICs, which was to drive cost savings (discussed in the next section). Low-cost locations offer significant cost arbitrage.

Enterprises' Expectations for GICs and their Performance

Companies in this vertical established GICs to achieve multiple objectives. The current performance of GICs in relation to the parent organizations' expectations varies across the type of objective. The key objectives for establishing GICs are the following:

- **Achieve savings** – This is the main objective for establishing GICs and is achieved by setting up GICs in low-cost delivery locations. In addition to arbitrage, GICs are expected to generate savings by consolidating volume across business units and achieving economies of scale (EoS)
- **Standardize/optimize processes and technologies** – This is the second most important reason for establishing GICs after cost savings. GICs are the focal points for process and technology standardization initiatives, provide consistency in process delivery, enhance effectiveness (e.g., accuracy and quality), and improve efficiency
- **Provide better service delivery visibility and control** – Companies face challenges with limited end-to-end process visibility due to a fragmented delivery model. Centralized delivery models facilitated through GICs help address this challenge. In addition, companies prefer to retain control for complex/critical processes, which results in a preference for the GIC model to deliver these processes
- **Focus resource bandwidth on core activities** – GICs help business units and functional teams refocus on core activities instead of on administrative tasks. This frees up resources for more value- generating activities
- **Optimize global talent model** – Companies offer better career paths and career development opportunities, optimize resources, and get access to niche skills by setting up GICs and consolidating resources under a common entity

GICs have been reasonably successful in achieving their parent organizations' initial set of objectives (as listed above). However, as the industry has matured, enterprises' expectations for their GICs have changed considerably. As GICs look to evolve and generate additional value, they need to meet the next wave of expectations from their parent organizations. The following table summarizes the performance of GICs against the initial objectives and the next wave of enterprise expectations for GICs.

○ Low ● High

Initial objectives	Performance against initial objectives	Next wave of expectations for GICs
Achieve cost savings		<ul style="list-style-type: none"> • Maintain arbitrage-led savings • Identify productivity improvements to provide additional savings • Focus on creating revenue and top-line impact
Standardize/optimize processes and technologies		<ul style="list-style-type: none"> • Continue to build consistency in process delivery through standardization of process and technologies • Drive transformational changes (e.g., through automation)
Provide service delivery visibility and control		<ul style="list-style-type: none"> • No significant challenges observed in this dimension
Focus on core activities		<ul style="list-style-type: none"> • Currently, >75% of the work delivered by GICs is transactional • Future expectation is to deliver more complex work
Optimize the talent model		<ul style="list-style-type: none"> • Adopt and institutionalize talent development programs (e.g., global talent mobility) to integrate the GIC workforce to the parent organization and reduce attrition and its impact on knowledge leakage • Upshift to more complex work in the GICs is also expected to aid the overall talent model

Current State of GIC Maturity and Future Priorities for GICs

Everest Group’s GIC maturity assessment framework maps the evolution of GICs across four stages of maturity. As GICs move along these stages, the extent and the nature of the impact delivered change.

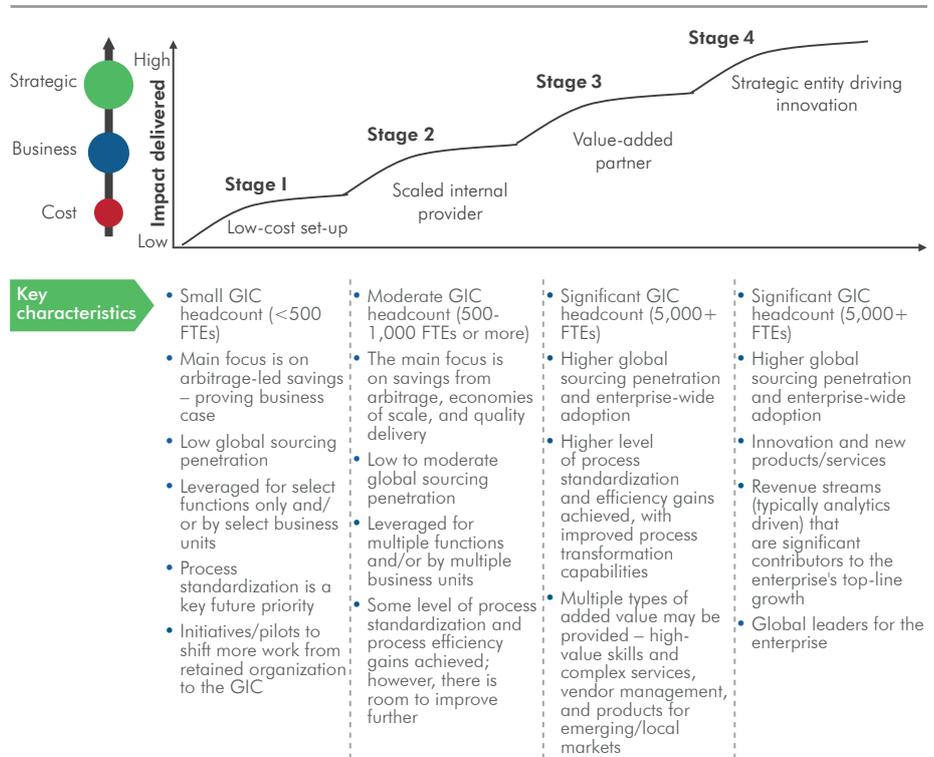
In the initial stages (Stages 1 and 2), GICs primarily deliver arbitrage-led savings and reliable service delivery. However, as GICs mature (Stages 3 and 4), they deliver other forms of business impact as well.

Exhibit 3 below depicts the Everest Group GIC maturity framework along with the characteristics of GICs in each of the four stages.

EXHIBIT 3

Everest Group GIC maturity assessment framework

Source: Everest Group (2015)



We used our proprietary framework to assess the current maturity of GICs in the manufacturing vertical and assessed their future priorities in the context of their evolution and maturity. Key findings of this assessment are as follows:

- The majority of GICs are in Stage 2 of maturity, implying that they are largely used for reliable service delivery and savings
- Some GICs have significantly matured their GIC model and are in Stage 3 or 4 of the maturity curve
- A few GICs are in Stage 1 of the maturity curve. Some of these GICs have been operating for more than 10 years, which could reflect the limited intent by the parent organization to grow the GIC or challenges faced with the GIC model

Our interactions with the parent organizations (and GICs) suggest that although GICs have performed well on the initial set of objectives (savings and reliable delivery), there is significant room for GICs to mature, as parent organizations desire greater process optimization and added value. In our GIC Value Diagnostic Survey, we asked GICs about their parent organizations' future expectations. Majority of GICs (70%+) indicated that their parent organizations' increasing expectations involve delivering added value.

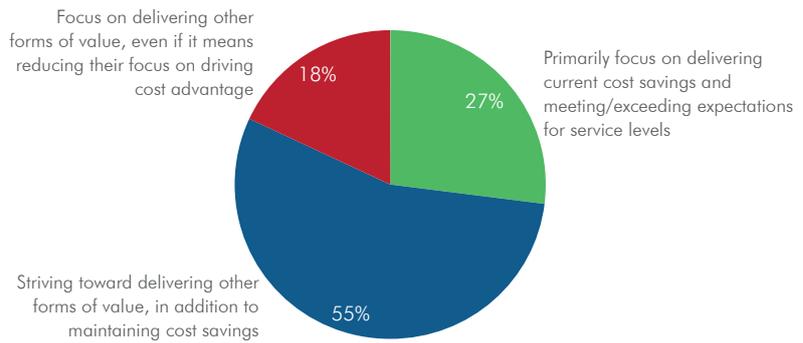
EXHIBIT 4

Future expectations from GICs in the manufacturing vertical

Source: Everest Group GIC Value Diagnostic Survey

Future expectations from GICs

Number of respondents (N); N=11



GICs can deliver various types of value beyond arbitrage to the parent organization depending on their maturity level. The three most prominent added-value opportunities for GICs in the manufacturing vertical are driving process standardization and efficiencies, delivering complex services, and creating revenue impact. The majority of the GICs that focus on delivering value beyond arbitrage consider process effectiveness and efficiency improvements their key added-value priorities, as illustrated by the following chart.

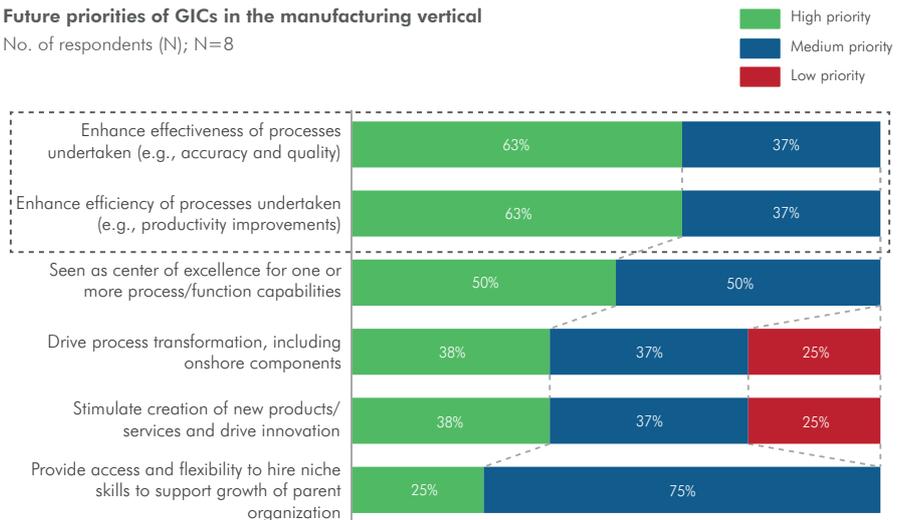
EXHIBIT 5

GICs' future priorities in the manufacturing vertical

Source: Everest Group GIC Value Diagnostic Survey

Future priorities of GICs in the manufacturing vertical

No. of respondents (N); N=8



Achieving these future priorities requires a significant step up in the GICs' capabilities and has implications for the overall operating model. Some of these aspects may be beyond the scope of the GICs' current capabilities/experience and could require significant change and intervention to be successfully delivered. For example, some of these changes require organization-wide implementation capabilities and specialized expertise (e.g., Six Sigma and SAP skills), which GICs may need to cultivate within a short span.

GICs' added-value priorities	What is it likely to take in order to deliver
Drive effectiveness and standardization/efficiencies	<ul style="list-style-type: none"> ● Process reengineering and transformation capabilities ● Lean Six Sigma methodologies ● Automation ● Understanding of end-to-end process workflows, within and beyond the purview of the GIC ● Understanding of intersections among multi-function processes (e.g., order to cash) and transformation expertise
Deliver complex work	<ul style="list-style-type: none"> ● Access to right/niche skill set, which may exist in markets beyond the GIC's current footprint ● Methodologies, knowledge base, and toolkits to modularize work ● Complexity could also mean multi-lingual capabilities, which organizations with limited GIC footprint may find difficult and expensive to deliver with their current models
Create revenue impact	<ul style="list-style-type: none"> ● People, process, and technology to drive initiatives that can impact top-line growth ● Organizational readiness for analytics- and innovation-led thinking

There are multiple areas of alignment between the capabilities that GICs require to deliver value (as indicated above) and the core strengths of providers, which create a strong case for GIC–service provider partnerships. We explore various GIC–service provider partnership constructs in the next section.

GIC–Service Provider Partnerships to Accelerate Value Delivery for the Enterprise

Adopters of both sourcing models (GIC and service provider) in the manufacturing vertical recognize that the outsourced model brings various strengths to the table:

- **Standardize process and implement best practices** – By virtue of working with multiple clients across industries, service providers are considered to be better at standardizing processes and implementing best practices
- **Global footprint and language capabilities** – Service providers typically have a larger global delivery footprint that provides them access to a variety of skills (functional, technical, and language)
- **Expertise in tools/technology** – Expertise in technologies, such as ERP and process improvement software, is another area where service providers typically have more experience and exposure
- **Manage volume fluctuations** – Service providers are able to scale up and down (by serving multiple clients through a shared pool of resources) and help manage fluctuations in work volumes

Aware of service providers' strengths, many GICs in the manufacturing space are already engaging with service providers and are reasonably satisfied with their association. An Everest Group survey among GICs revealed that in the manufacturing space, 80% of GICs are realizing expected benefits from the service provider model.

EXHIBIT 6

Extent of benefits realized by GICs from using service providers

Source: Hybrid sourcing adoption trends in GICs: 2014 survey conducted jointly by SSON, Nasscom, and Everest Group

Extent of expected benefits realized by GICs from using service providers

Number of GIC respondents (N) in manufacturing vertical; N = 20

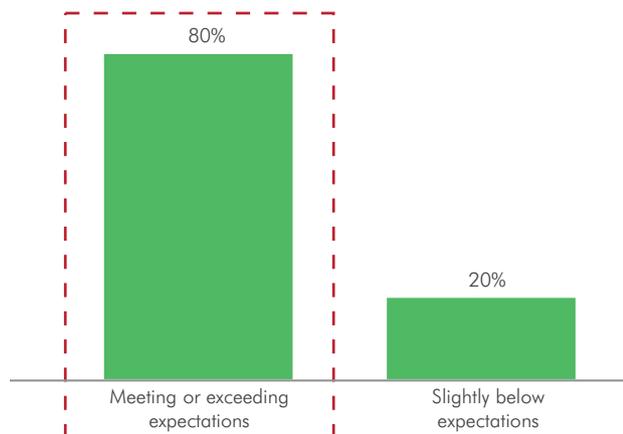
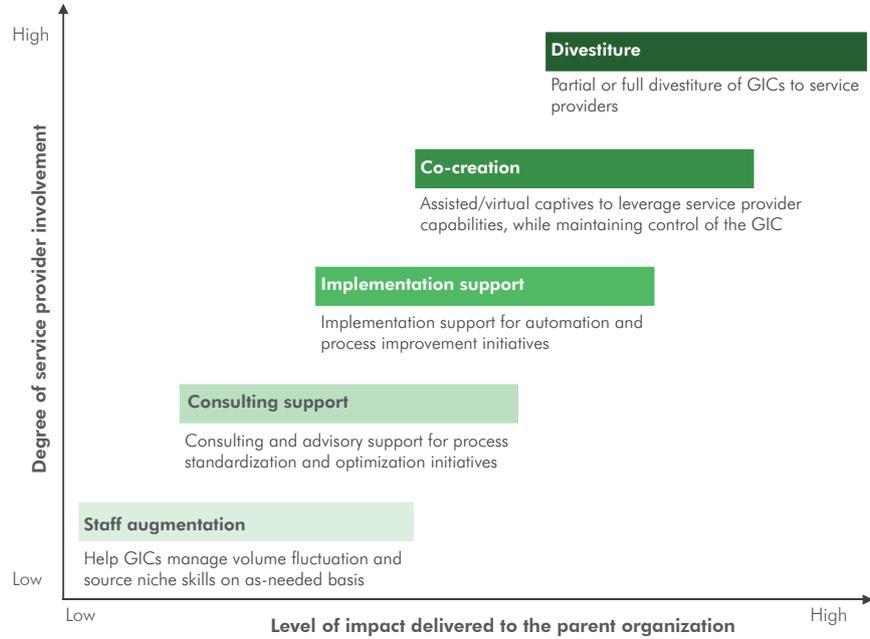


EXHIBIT 7

Approach for GIC-service provider partnership

Source: Everest Group

Approach to partner with service providers



Staff augmentation

- By leveraging service provider resources in the staff augmentation mode, GICs can manage the volume fluctuation challenge better. This will enable them to provide seamless delivery to end customers
- GICs may need access to niche/specific skills (e.g., Six Sigma experts and modeling experts) to achieve added-value objectives. The requirements could be specialized, or they could provide a career path to people if they hire them. Service providers can also provide such skill sets to GICs in the staff augmentation mode

Consulting support

Engaging with service providers to gain expertise in process optimization and tools/technology (e.g., SAP) in a consultative arrangement, GICs can deliver better results on the efficiency-related added value expected from them. This enables GICs to learn best practices in processes and tools from service providers' experience of serving other clients.

Implementation support

In some of the newer areas such as automation and implementing digital initiatives, GICs may require increased support to not only define the roadmap but also to implement it. Service providers are, typically, ahead of the curve in these types of capabilities and may act as partners to GICs by providing implementation support.

Co-creation

Enterprises are often wary of outsourcing complex or customer-facing work that involves data and proprietary knowledge and prefer the GIC model. By leveraging models such as assisted/virtual GICs, GICs can leverage service provider capabilities, along with maintaining management control.

Divestiture / carve-outs

- To enable GICs to move to the next level of maturity, there may be a need for significant third-party intervention by way of partial or full divestiture. In some cases, a GIC on its own may be unable to generate additional value, become a strategic entity, or implement best practices, etc. The GIC may need to be aligned with the capabilities and expertise that a service provider can bring
- Established GICs that are looking to evolve and serve the enterprise as a strategic partner can also look for carve-outs of rule-based work to service providers. This is likely to provide additional cost savings, focus resources on delivering complex work, and provide added value to the enterprise

Conclusion

GICs form an integral part of the business process service delivery in the manufacturing vertical. Most GICs have effectively delivered on their parent organizations' initial objectives of cost reduction and reliable service delivery. Some GICs have achieved significant scale and maturity and have evolved to deliver value beyond the initial objectives. However, the business environment is extremely dynamic and changing faster than ever before. Consequently, enterprises' expectations for their GICs are becoming more complex and strategic, which in turn require GICs to speed up their evolution. Service providers can help GICs accelerate their added value for their enterprises in multiple ways. GICs can partner with service providers to leverage their capabilities, experiences, best practices, and knowledge to generate additional value for the enterprise.

About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com and research.everestgrp.com.

For more information about Everest Group, please contact:

 +1-214-451-3110

 info@everestgrp.com

For more information about this topic, please contact the author(s):

 H. Karthik, Partner - Global Sourcing
h.karthik@everestgrp.com

 Sakshi Garg, Practice Director - Global Sourcing
sakshi.garg@everestgrp.com