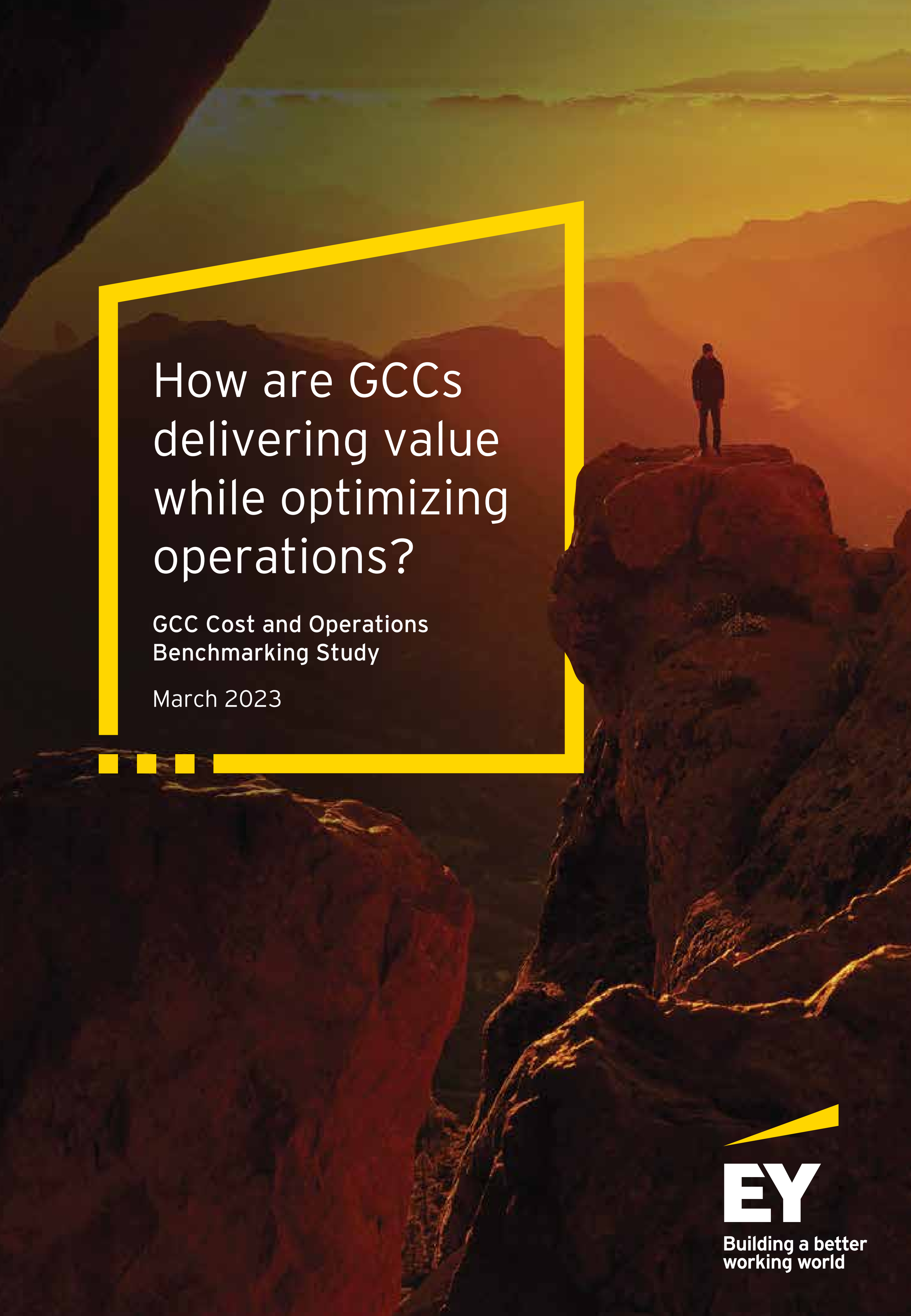

How are GCCs delivering value while optimizing operations?

GCC Cost and Operations Benchmarking Study

March 2023

EY

Building a better working world

Contents

**COBS stands for Cost and Operations Benchmarking Study.*

Foreword

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Global Capability Centers (GCCs) have significantly evolved and are now strategic partners to the enterprise, with an increased focus on transformation and value creation. They are now innovation centers rather than multi-functional support centers.

With GCCs focusing on multiple business transformation initiatives, it has become extremely important for them to measure and manage the operating costs and other metrics, so as to articulate the value delivered.

In this edition of our study, we interacted with GCC leaders across industries to understand the cost drivers, strategic priorities and leading practices being followed by organizations.

We are glad to present the outcome of our study focusing on the shift in GCC spending patterns and investment priorities post the pandemic. This will enable the GCCs to benchmark their operations with the industry leaders and adopt leading practices.

We thank all the participants for their contribution to this exercise and appreciate their valuable time and effort.

1.0

Evolution of the GCC landscape

GCCs post the pandemic

Today, GCCs in India, constituting more than half of the GCCs across the world, are focused on delivering niche capabilities and knowledge, in addition to providing cost arbitrage and efficiency.

Along with this paradigm shift, the cost of operating a GCC has steadily increased over the years, with GCCs having to balance innovation spends and cost of operations. There is a significant increase in cost pressure due to rising salaries, surge in global inflation, investment in state-of-art workspaces, and adoption of high-end technology.

With GCCs pivoting to provide high-end services, enhancing employee value proposition has taken the center stage.

Amidst all these increasing spends, factors like reduced travel need, hybrid working model, increasing use of technology to collaborate, utilization of managed services etc. have mitigated the impact on organizations' bottom-lines to some extent while unlocking value in the post-pandemic world.

2.0 GCC COBS: overview

2.1
About the study

For over a decade, EY has been conducting this study to help GCCs understand cost drivers and strategic priorities, while providing them insights to optimize their operations.

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In our GCC COBS, we have focussed on the post-pandemic working world and some key topics such as :

- Shift in GCC spending pattern post pandemic
- Changing investment priorities
- Investing in future-ready workforces

Changing talent landscape | **Innovation ecosystem** | **Impact of automation**

Coverage highlights

60+
Interactions with GCCs

Insights from
300+ GCC and BPM engagements

Centre size up to
3000+ FTEs

Multiple industries
(Healthcare, Manufacturing, Technology, FMCG)

50%
GCCs delivering medium to high complexity services

2.2
The scope

This study will provide GCCs an understanding of key trends, strategic imperatives, and cost & operational benchmarking, which GCCs can leverage to identify cost optimization levers and opportunities for improvement.

Scope and focus areas

Cost and operations trend analysis

Overall cost trends
Y-O-Y trend analysis of key cost metrics

Detailed analysis
Deep-dive into each cost theme

Leading practices
Leading practices followed by GCCs

Focus areas
Opportunities for cost optimization and value creation

Company specific cost and operations benchmarking

Workforce
Salary and benefits cost, recruitment cost, training cost

Facilities
Rental, facility essentials and other building costs

Business travel
Airfare, accommodation, local transport

Technology
Network and communications, hardware and software costs

2.3

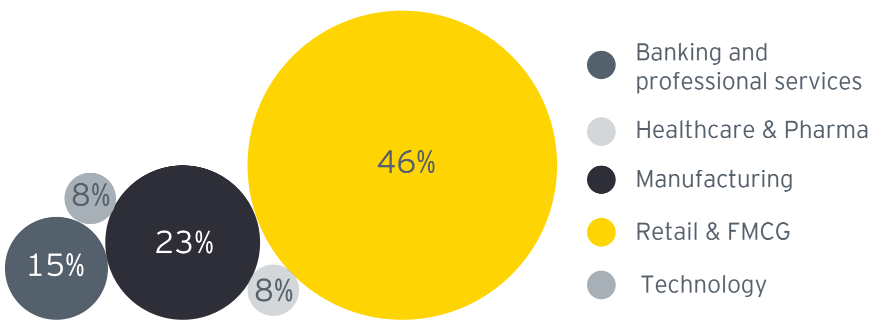
Our approach

Our study has four phases involving interaction with GCC leaders, data collection and analysis, discussions with key stakeholders on leading practices and insights, and delivering the finalized report

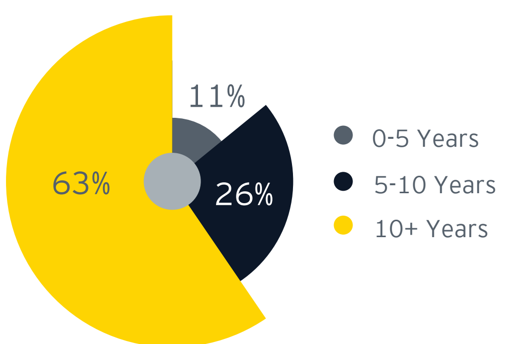
2.4
Participant mix

GCC COBS participants comprise a diverse mix of GCCs from multiple industries operating across the entire service category spectrum covering major Indian cities

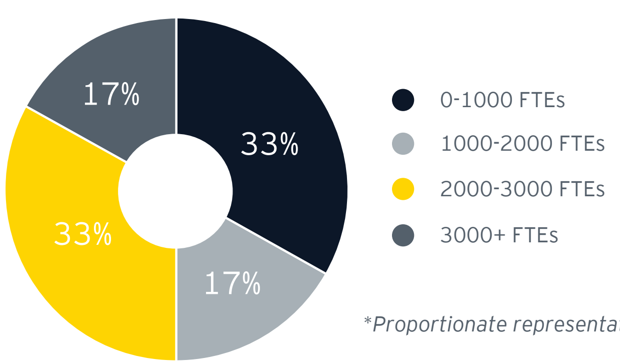
Sectoral split



GCC age

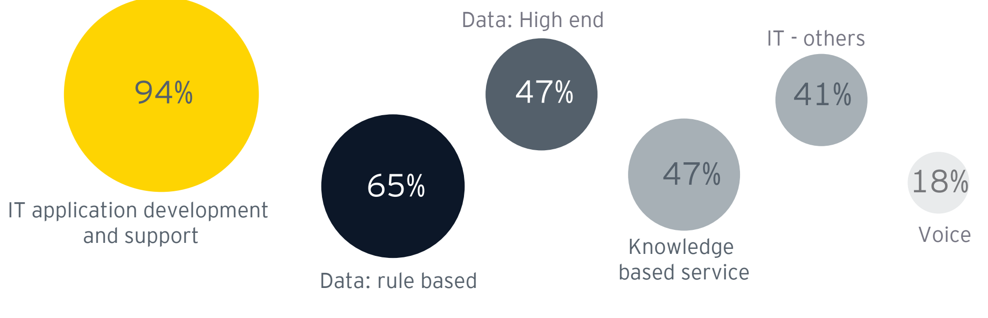


GCC size*



**Proportionate representation*

Services provided by the GCCs



3.0

GCC COBS: trend analysis

3.1
GCC analysis | Key trends

Overall cost per FTE*

INR **23.9** LPA^

2019: INR 17.0 LPA | 12% CAGR ↑

Workforce
Cost per FTE
20.3 LPA | 18% ↑ CAGR
2019: INR 12.5 LPA

Travel
Cost per FTE
0.2 LPA | 40% ↓ CAGR
2019: INR 1.0 LPA

Facility
Cost per FTE
1.3 LPA | 14% ↓ CAGR
2019: INR 2.0 LPA

IT and communications
Cost per FTE
1.6 LPA | 4% ↑ CAGR
2019: INR 1.4 LPA

*FTE consists of Production, Support and Contract staff

^ Overall cost per FTE includes ~INR 0.5 LPA in 2022 for admin and miscellaneous cost

Key trends

- GCCs are expanding their **service portfolios** with an enhanced focus on innovation and knowledge-based capabilities, increasing the overall costs
- **Hybrid working model, virtual collaboration** and **travel restrictions** have substantially reduced travel and facilities costs

- Opening **satellite offices** in **low-cost locations** along with flexible and long-term **lease agreements** and **reduced rentals**
- Optimizing **seat utilization** and **existing contracts** on housekeeping, security, cafeteria, etc. have reduced operating costs

- GCCs are focusing more on **employee value proposition** to **hire and retain** talent
- **Scaling up capabilities, hiring niche skillsets** has led to higher workforce costs

- Leveraging **As-a-Service** model **(Device and software)** has decreased capital expenditure
- Delivering strategic services has increased the requirement of **high-performance laptops** and **peripherals,** have driven up the hardware and software costs

- Travel restrictions and increased **virtual transitions and collaborations** has reduced business travel
- More focus on reducing **carbon emissions** has led to investment in **sustainable travel options**

*Figures in INR

3.2

a. Workforce – cost details

Overall workforce cost and emerging industry trends

Overall workforce cost per FTE

12.5L

20.3L

CAGR (2019-22) 18%

- Increased hiring and focus on **employee value proposition** to retain talent during the great resignation have been the highest contributors to the overall cost
- GCCs are collaborating with recruitment agencies to fulfil niche resource requirements at scale and speed, leading to increased hiring costs
- Investment in **digital platforms** for **training** new hires and **upskilling** existing employees

Salary and benefits cost per production and support staff

11.4L

21.1L

CAGR (2019-22) 23%

- **Increased CTC** due to an increase in retention bonuses, joining bonuses, deferred income plan, insurance coverage, allowances, etc.
- To attract talent with niche skillset in a **competitive market,** GCCs are paying more compared to market standards

Recruitment cost per new hire

0.4L

0.6L

CAGR (2019-22) 10%

- **Premiums** paid to **recruitment consultants** for quicker turnarounds
- Recruitment costs have increased on account of **higher attrition** observed post-COVID-19

Training cost per FTE

0.1L

0.2L

CAGR (2019-22) 6%

- GCCs have moved to **virtual training** platforms which have increased the L&D costs, However, economies of scale will help in reducing the unit cost in the long run
- GCCs are focusing on **upskilling** the existing employee base rather than hiring highly qualified individuals, and this has increased training costs

Pre-Covid   Post-Covid

**Figures in INR*

3.2

b. Workforce – strategic priorities

Hiring talent with niche skillsets

GCCs are paying a premium to hire niche skills by leveraging recruitment partners to access the best talent in a time-bound manner

Focus on employee well-being

GCCs are increasing focus on the health and well-being of the work-force (insurance, extended leaves, wellness centers, etc.)

Shift to product mindset

GCCs have started focusing on developing product/ platform based scalable solutions, simplifying processes and spearheading transformation

Digital upskilling

Significant focus on L&D to upskill employees to be future ready and deliver value-adding activities

Employer branding

GCCs are revamping their Employee Value Proposition to be able to hire at scale and speed and become an employer of choice

Focus on managed services

Demand for low-risk automated solutions is driving demand for Managed Services through a Build-Operate-Transfer construct

3.3

a. Facilities – cost details

Overall facilities cost and emerging industry trends

Overall facilities cost per FTE

2.0L

1.3L

CAGR (2019-22) 14%

- GCCs are operating at 150% capacity utilization in the hybrid working world, reducing facilities cost per FTE
- Reduced electricity consumption on account of remote working and prudent usage has decreased facility essential costs
- Lower operating expenses due to reduced capex and rationalization of the floor space

Rental cost per FTE

1.0L

0.9L

CAGR (2019-22) 0.7%

- Optimal seat utilization has helped in rationalizing the rental cost per FTE despite the rising rents in Grade A office spaces
- Floor space utilization on account of rising headcount, lower rents in SEZs (10% to 15% lower than market) have further contributed to a reduced per FTE cost

Facility essentials cost per FTE

0.3L

0.2L

CAGR (2019-22) 13%

- GCCs have endeavored to rationalize the AMC expenses by modifying the lease agreements
- Reduced office occupancy due to hybrid working has lowered electricity cost across GCCs except for those with high-end lab setups

Other building costs per FTE

0.7L

0.2L

CAGR (2019-22) 32%

- Depreciation of non-IT assets has decreased across GCCs due to reduced capital expenditure, reduction in ancillary services and other building expenses
- Building running cost per FTE has decreased due to reduction in usage of food court, recreational facilities, etc.

Pre-Covid   Post-Covid

Figures in INR

3.3

b. Facilities — strategic priorities

Flexible lease terms

Professional office spaces are now available at flexible and negotiable lease arrangements. These are coupled with flexible or deferred payment plans.

Hybrid working model

With a hybrid working model, GCCs now have the option of not expanding their office space with the increasing headcount

Increasing office rents

Rents in Tier I cities have drastically increased because of supply constraints and shortage of Grade-A office space

Co-working spaces

Co-working office spaces have seen increased acceptance for facility expansion as the cost of operating is less. GCCs are exploring Opex based models for setting up new facilities.

Sustainable infrastructure creation

Majority of the GCCs today are Investing in sustainable infrastructure, environment conservation and ergonomics

Retrofitting and repurposing

GCCs are focusing on repurposing and redesigning the existing office spaces they already occupy to improve utilization

3.4

a. IT and communications – cost details

Overall IT and communications cost and emerging industry trends

IT and communications cost per FTE

1.4L

1.6L

CAGR (2019-22) 4%

- Companies are investing in **advanced hardware technology** for service delivery, leading to higher procurement cost and higher subsequent depreciation
- Investments in **data security** and **communication software** to facilitate remote working have increased significantly

AMC cost per FTE

0.2L

0.1L

CAGR (2019-22) 16%

- Companies are procuring **combined care packages** to lower AMC expenses per FTE
- **Global procurement** of licenses and applications has led to a reduction in the maintenance costs

Hardware and software cost per FTE

0.3L

0.5L

CAGR (2019-22) 16%

- Companies are pivoting towards providing **high-end services** leading to increased requirement of **advanced machines** and **cloud migration,** and to higher spend on hardware and software
- **Reduced refresh period** for IT assets to **minimize downtime incidents** impacting employee productivity has led to an increase in hardware cost

Network & communication cost per FTE

0.2L

0.2L

CAGR (2019-22) 0%

- As companies increase their **digital penetration** to maximize efficiency, higher cost is incurred to provide a required and conducive environment in terms of network infrastructure to enable the transition
- In the current **age of internet and virtual collaboration,** companies have shifted to higher network bandwidth

Other IT cost per FTE

0.4L

0.5L

CAGR (2019-22) 6%

- Expensive machines have led to higher amount of **depreciation** being booked by companies post-covid, increasing the other IT costs incurred per FTE
- To focus more on value-adding services, companies **outsource** their IT support activities, leading to **higher consultancy**/ outsourcing costs

Pre-Covid Post-Covid

Figures in INR

3.4
b. IT and communications – strategic priorities

Shift to an as-a-service model

To support the rapid transition to a distributed workforce with minimal risk and optimum costs, GCCs are moving toward using as-a-service model for both hardware and software requirements

Deliberating cloud investment

Cloud adoption can help realize significant cost savings by eliminating legacy technology stack and also lead to real-time monitoring and reporting

Monitoring cybersecurity

Proactive approach to cybersecurity, data protection and compliance programs.

Expediting automation

Organizations are prioritizing automating transactional processes, reducing human intervention to optimize cost and improve quality

Emphasizing asset maintenance

Increased focus on adequate asset maintenance in order to reduce downtime incident for maximizing productivity

Expenditure on collaboration tools

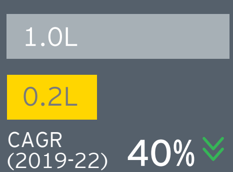
Companies have proactively invested in numerous collaboration tools to adapt to hybrid working model

3.5

a. Travel – cost details

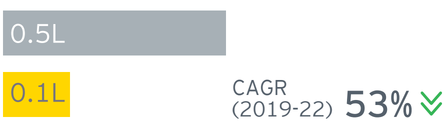
Overall travel cost and emerging industry trends

Overall travel cost per FTE



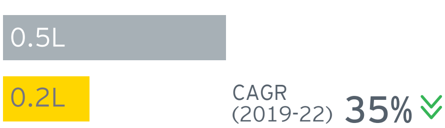
- Travel costs have reduced drastically due to **imposed travel restrictions** and **remote working**
- Sharp decline in travel expenses post pandemic due to **increased virtual transitions,** and **hybrid working** model

Business travel cost per Production FTE



- Both international and domestic business trips have reduced drastically due to covid related travel restrictions
- Organizations are increasingly shifting to **virtual collaboration** eliminating the need to travel for official purposes

Local transport per production and support FTE



- Local transport cost has decreased significantly due to people **working remotely,** thereby reducing the need for commuting
- Employees have started coming **back to office** in a phased manner and hence transport cost is expected to go back to pre-covid levels in the near future

● Pre-Covid ● Post-Covid

*Figures in INR

3.5
b. Travel — strategic priorities

Limited business travel
GCCs have prioritized the travel plans for essential trips like sales, leadership meetings and client project work, where collaboration is essential

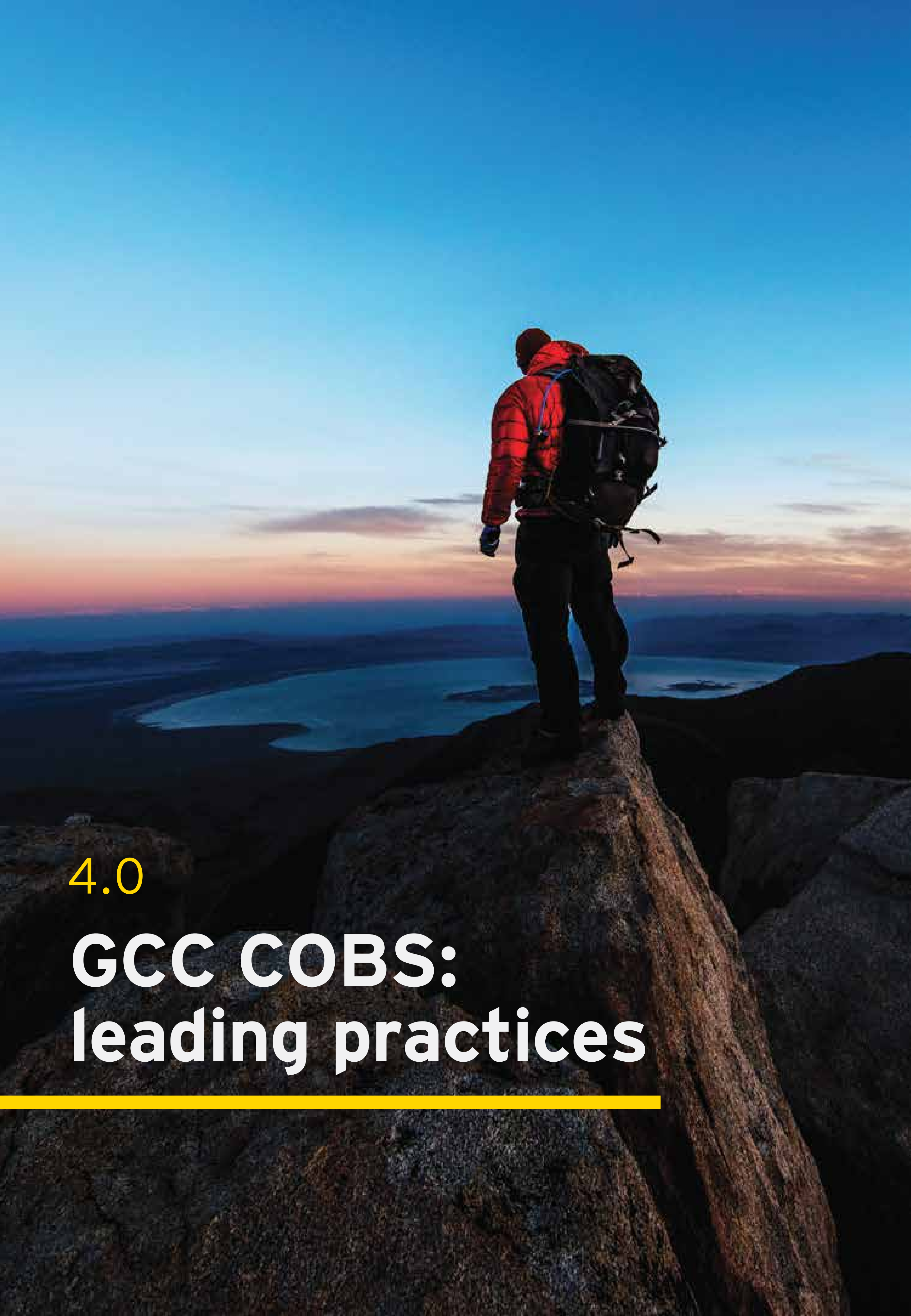
Hybrid way of working
GCCs are leveraging hybrid working model to benefit from reduced travel expense and constant collaboration among teams

Lowering carbon emissions
GCCs are partnering with travel partners investing in green initiatives to identify sustainable travel options

Virtual platforms for collaboration
GCCs have invested in collaborative software subscriptions and virtual event platforms which have increased by over 37% since 2019

Non-hotel bookings
Majority of the GCCs today are Investing in sustainable infrastructure, environment conservation and ergonomics

Leveraging discounts and consolidation
As corporate travel reopens gradually, GCCs are leveraging higher discounts through demand consolidation and supplier rationalization



4.0

GCC COBS: leading practices

Leading practices

Shift from executors to influencers

- **End-to-end process** enablement
  - A leading retail GCC has expanded the current scope, focusing on **business outcomes** through Global Process Ownership
- Providing niche and value adding services
  - A Canada headquartered GCC has established **Data and analytics CoE** to provide value added insights for enhance decision enablement
- Focus on **customer experience**
  - A leading oil and gas GCC has carved out a **customer experience team as horizontal function**

Revamp talent strategy

- Revamping **employee value proposition**
  - A technology GCC has reduced attrition and developed home grown **leadership** through redefined employees' job structure and career paths
- **Acqui-hiring of start-ups**
  - Product development arm of the US retail GCC acqui-hired a data annotation start-up for its skilled workforce and intellectual property
- Focus on **recruitment channel and upskilling program**
  - A Bengaluru based GCC has reduced the hiring cost by five times for associates by focusing purely on campus hiring backed by a **comprehensive learning program** with investment in LinkedIn learning hub licenses

Leveraging partner ecosystem

- Centrally managed **transformation office with platform-based mindset**
  - A leading FMCG GCC has established a central transformation office that **runs programs for crowdsourcing ideas** and has built a partnership with leading tech start-ups and technology companies to drive innovation through new platforms
- Focus on **managed services model for transactional activities**
  - A retail GCC is **utilizing "make-vs-buy" framework** to decide on services to be delivered by managed service providers or through existing employees and thereby able to **reduce cost by 5% to 10% with no drop in quality standards**

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