

# ‘Captivating’ Business Practices: Setting up your own entity in India

Call it by any name - Global in-house centers (GIC) or offshore engineering R&D (ER&D) centers; these are rapidly becoming preferred business practice for enterprises in the US to broaden their access to talent pools and rake in productivity and returns. GICs/ER&D centers enable getting work done by the same company in a different country such as India, giving companies a viable option to outsourcing, and addressing its underlying concern - dependence on third parties.

## Strategic benefits

In the case of emerging enterprises who need to rapidly develop and enhance their core offerings to the market, this approach of setting up one’s own center can be highly advantageous.

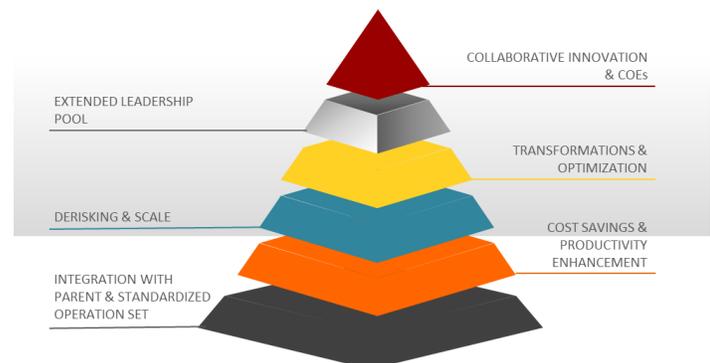
The most significant advantage to setting up an entity is being able to gain better cost arbitrage (as compared to outsourcing). It also helps enhance productivity and efficiency, establish seamless work methods with the parent and extend the global talent pool.

Via collaboration and innovation, these entities can mature to give high returns.

As OlleWijk, senior vice president and Head of R&D, Sandvik Group said on their decision to set up an Engineering R&D in India, "There is a tremendous development of technical and R&D capabilities in India. Utilizing this expertise means great opportunities for Sandvik, as R&D is an enabler for business development.

## To set up or not to set up

There are a few scenarios that could result in a GIC/ER&D being set up either in the immediate or the medium term.



- An enterprise that has offshored to Service Providers and now wants to set up its own operation in India
- An enterprise that has not offshored to India earlier and is pursuing its options

However initial size and scale are an important consideration in this decision and it is advisable to develop a return on investment computation based not just on the cost benefits or talent but as a holistic number based on compliance and governance matters. Hence getting an assessment of setting up a captive and having such ROI computed is a good place to start.

**Incubation as an option**

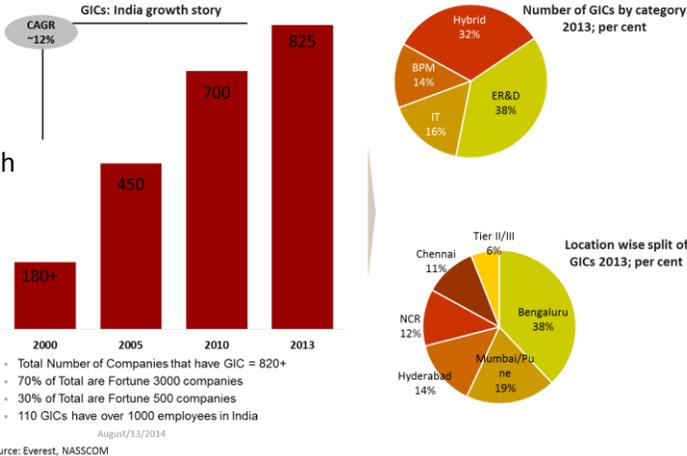
If initial size and scale do not merit a business case to set up on one’s own, however the enterprise would like to leverage the obvious other benefits of going captive, options do exist in the market. Expert companies such as CaptiveAide also provide an incubation and warehousing model as a first step to going captive whereby the enterprise can get all of the benefits without having to setup on day one.

**GIC Landscape in India**

The GIC landscape in India is extremely vibrant. Over 800 multi nationals, mostly from the US, have set up and run their captive entities now.

These include companies of various sizes, across domains such as Information Technology (IT) and Information Technology Enabled Services (ITES), Business Process Management and R&D. Given the large talent pool that continues to emerge and evolve in India, the opportunity to setup and grow a GIC remains a very attractive option.

**A Vibrant & Diverse Landscape**



**Sustainable Arbitrage in India**

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

Current arbitrage sustainability (Base case)

	IT – ADM (base skills)	IT – ADM (niche skills)	Contact Center (English)	BP (transactional processes)	BP (judgment processes)	KP/ Analytics	ES – R&D
India	12-15	13-16	14-17	15-18	12-15	12-15	12-15
Philippines	10-13	12-15	13-16	13-16	9-12	9-12	9-12
China	7-10	7-10	9-12	9-12	6-9	5-8	7-10
Poland	7-10	7-10	10-13	10-13	8-11	4-7	7-10
Mexico	7-10	7-10	8-11	8-11	<5	4-7	4-7
Brazil	<5	<5	<5	<5	<5	<5	<5

Legend: >10 years (dark blue), 5-10 years (medium blue), <5 years (light green)

**Advantage India: Cost Effectiveness**

India remains cost competitive too and it appears that it would remain so for a long time to come. See chart enclosed for a comparative analysis.

This arbitrage can be seen across domains, technology skill sets and experience. As the chart indicates, India continues to score favorably over all other offshore destinations, and will likely continue to have this advantage. “We have continued to expand our footprint

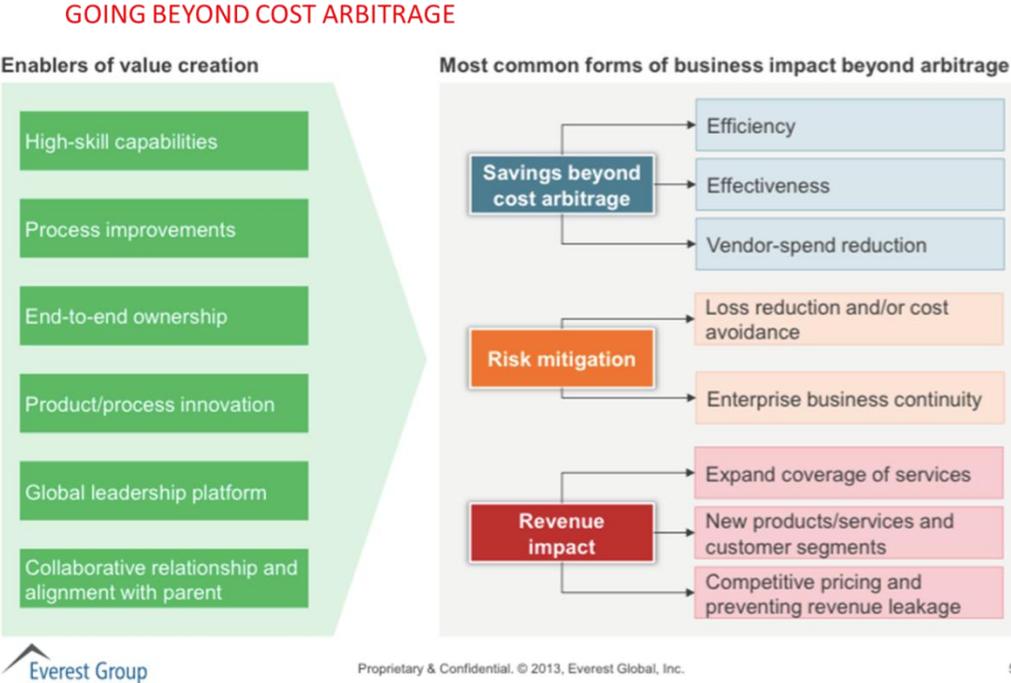
across strategic areas,” said Ken Moss, vice-president (technology and science), eBay Marketplaces. “We are looking to tap into the large pool of software engineering talent in

Bangalore...We are committed to India as a technology hub and see India’s software engineering talent as a critical driver for our long-term success.”<sup>1</sup>

**Opportunities Beyond Cost Saving**

Given that cost arbitrage is the biggest reason behind setting up a GIC, there are other favourable business outcomes to it. As the chart explains, value is created in terms of risk mitigation and favourable revenue impact arising due to expanded coverage of services.

It also leads to better customer satisfaction and trust as there are no issues when it comes to sensitive topics as handling client data responsibly as it is being circulated within the same company, with the same core principles and ethics as opposed to sharing with a third party in case of outsourcing.



The experiences of existing GICs have shown that there is tremendous opportunity to go beyond its basic form and indeed, become a differentiation strategy for the corporation.

**WHY CAPTIVEAIDE**

Setting up your own GIC can be a very demanding and time consuming venture for many corporations. The key is to be able to get the right advice and have a risk free way of doing this. “For the success of any shared service center, the key is the systematic approach to each of the steps in enabling the transition. Lack of planning and execution could lead to failure of the entire process. Success can surely give immense value to any organization,” says the Head of EMC, BPM Shared Service Unit, stressing on the importance of taking a meticulous and structured approach to GICs.

<sup>1</sup>[http://www.business-standard.com/article/companies/ebay-launches-2nd-development-centre-in-india-113091200887\\_1.html](http://www.business-standard.com/article/companies/ebay-launches-2nd-development-centre-in-india-113091200887_1.html)

## **About CaptiveAide**

We are a unique lifecycle consulting & services provider – from Developing the business case to Setup and Stabilize (or Acquire and Integrate) through to Transform and Govern - a Global In-house Center, all within a Risk-managed framework

The founding team consists of all C-Suite leaders. Along with the core team, we are practitioner - consultants who have over 250+ years of combined experience and know-how that spans the entire spectrum of setting up, running and transforming IT / BPM/ ER&D companies, hosted captives and large scale operations.

CaptiveAide is a member of NASSCOM and its Global In-house Center initiative.