



GCC CAPABILITY CENTRES THE INDIA STORY

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GLOBAL CAPABILITY CENTRES (GCC) – THE INDIA STORY

What is GCC?

GCCs, are offshore centres established by companies to provide various services to their parent organizations. These centres operate as internal entities within the global corporate structure and offer specialized capabilities, such as IT services, research and development, customer support, and other business functions. GCCs play a vital role in leveraging cost efficiencies, accessing talent pools, and fostering collaboration between parent companies and their offshore operations. These originated in the early 1990s as offshore divisions of major multinational corporations like General Electric, Texas Instruments, Citigroup, and American Express. GCCs are the backbone of India’s IT and business services industry.

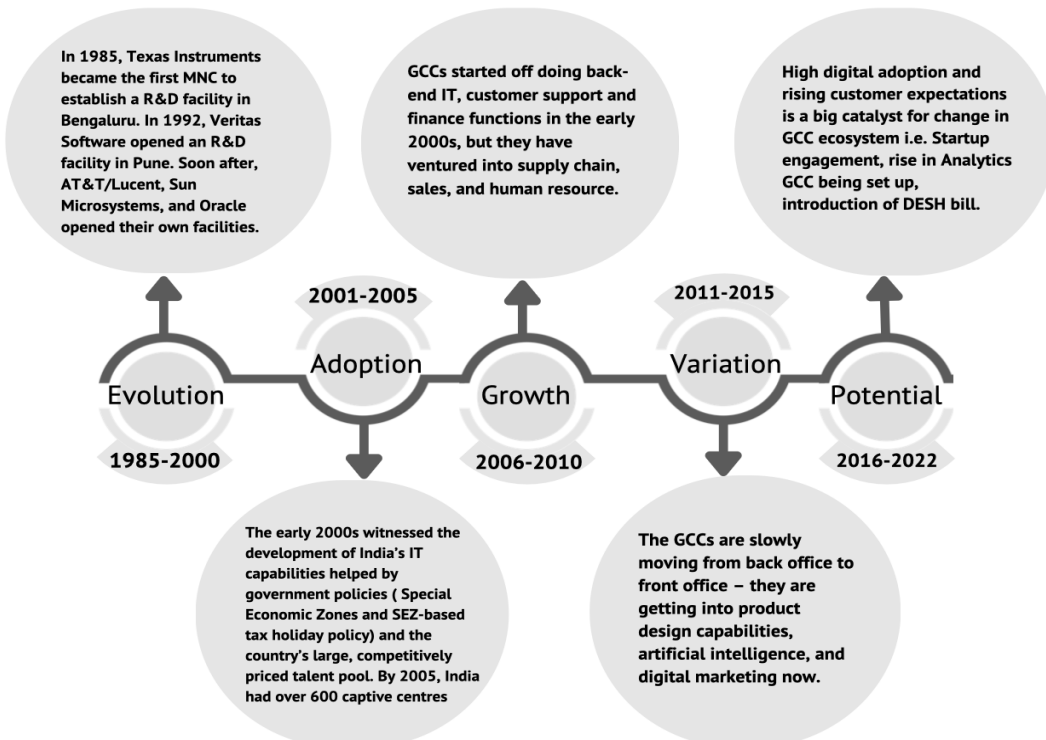
GCCs – The India Story

The early GCCs in India, established in the 1980s, primarily leveraged cost advantages. The initial pathbreakers were companies like Texas Instruments, Microsoft and General Electric amongst a few more.

However, in the past decade, there has been a significant shift towards innovation. GCCs now focus on creating value for businesses and customers, driving strategic initiatives, and solving complex business problems through innovative approaches.

India is leading the way today in unlocking innovation by becoming a global hub for Global Capability Centres (GCCs).

GCC – The Indian Story



GLOBAL CAPABILITY CENTRES (GCC) – MARKET SIZE

MARKET SIZE

India comprises 50% market share of GCCs across the globe, estimated at about 1580 having its presence in India and is still growing. It is anticipated to surpass 1,900 by 2025 and 2,400 by 2030. Projections set out that within 5 years it could reach 60-85 billion US dollars, resulting in one of the largest clusters of Fortune 500 companies in the world.

Driven by end-to-end innovation, the number of GCCs in India have doubled between 2012 and 2023. Today, more than 17 lakh employees work in GCCs, making the sector has a Compounded Annual Growth Rate (CAGR) of 12.1 per cent between 2018 and 2023. With focus on service sector development, the country aims to create a culture that fosters entrepreneurial approach, enabling GCCs to leverage the flexibility, openness to feedback, and fast-paced nature of start-ups to accelerate their expansion.

The workforce employed in the GCC industry in India is projected to grow from the current size of 1.9 million individuals to approximately 4.5 million. The compound annual growth rate (CAGR) from 2019 to 2023 is 11 percent, and from 2023 to 2030 is projected to be 14 percent. Moreover, the cost per full-time equivalent (FTE) is estimated to increase from the current amount of US\$29,100 to US\$37,760 by the year 2030.

GCC Ecosystem in India



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The expansion of GCCs in India is mainly driven by engineering and R&D services, which contribute to 56% of the total revenue share. The factors behind this growth are India's skilled talent pool, supportive business and policy environment, and advancing infrastructure.

In India, GCCs serve as central technology hubs for their headquarters, focusing on specialized expertise in areas, such as cloud computing, artificial intelligence (AI), machine learning (ML), and natural language processing (NLP). They also specialize in emerging fields like cybersecurity, advanced analytics, blockchain, and the Internet of Things (IoT). These GCCs play a crucial role in exploring cutting-edge technologies like Web 3.0, Digital Twins, and Metaverse, as part of their parent organizations' innovation initiatives.



GLOBAL CAPABILITY CENTRES (GCC) – THE GROWTH DRIVERS

Growth of GCCs in India are driven by scale, innovation, delivery excellence, and leadership and this has been at the heart of GCCs' evolution in the last 2 decades. The main growth drivers are:

1. **India Innovation Prowess** – Innovation and Engineering R&D continues to be the leading growth pillar for GCCs in India. Out of the over 1580 GCCs, over 1440 are ER&D GCCs. In addition, out of the total GCC workforce of over 1.66 mn, approximately 695,000 are ER&D GCC workforce. In addition, ER&D GCCs in India are also more mature and undertaking activities across the value chain end to end.
2. **GBS Powerhouse** – Indian continues to be a Global Business Services (GBS) powerhouse, with over 960 GCCs having functional shared services model. Over 110 organisations also have HR COEs in India. Primarily HR, IT, Finance and Accounting are key functions
3. **Winning the Digital Age** – Over 210 GCCs possess AI/ML capabilities in India. In addition, GCCs are also adopting a Cloud-first strategy and are expected to invest over USD 450 Mn by 2024 towards driving intelligent automation.
4. **A Sandbox for Global Leadership** – GCCs in India have become a sandbox for global leadership, with over 5000 global roles existing in Indian GCCs, 18% of which are women leaders. These global roles are expected to grow to over 20,000 by 2030.

GCC Ecosystem - Advantage India



5. **Masters of Networked Globalization** – GCCs in India are not just concentrated to Tier 1 cities, rather expansion to tier 2 and 3 cities are also being leveraged to achieve cost reductions of 25-30%.
6. **India's New Talent Code** – GCCs in India host multi-generational workforce across boomers, Genx, Millennials, and Gen Z. In addition, they are also embracing newer work models such as gig workforce, focusing on varied motivators such as work-life balance, compensation, culture, diversity, equity, and inclusion among others.
7. **India's Journey to Sustainable Value** – For GCCs in India, sustainability has become a key imperative and is no longer a good-to-have boardroom agenda. Indian GCCs are intertwining sustainability with their business practices and processes to drive innovation, develop sustainable products, adopt circular economy principles, and provide value to their customers.

GLOBAL CAPABILITY CENTRES (GCC) – DEVELOPMENT PARADIGMS

From 2023, GCCs are transitioning to Wave 4.0, where they will build niche competencies, cultivate global leadership, monetize services, and venture into untapped frontiers. GCC Wave 4.0 is characterised by various important features –

- 1. Monetizing the services** - GCCs are driving growth and profitability by embracing customer centricity, leveraging data analytics, expanding into newer markets, and increasing digital innovation.
- 2. Peer collaboration** – Through peer collaboration, efficiency, cost savings, and building resiliency, the overall industry ecosystem is strengthened.
- 3. Generative AI paradigm** – GCCs are seeking to transform themselves in the post Gen-AI era by actively seeking Gen-AI and human AI collaboration expertise for complex problem solving.
- 4. General manager roles from India** – Increasingly Indian managers are expanding their portfolios and driving innovation, growth, and profitability by leveraging talent, digital capabilities, and market knowledge.
- 5. Hub-as-a-service** – Indian GCCs are transforming into hubs for driving customer success, and the transition to as-a-service model.
- 6. Wormhole for European and Asian MNCs for US market** – Indian GCCs have comprehensive understanding of the US market and hence can act as a wormhole for Asian and European companies by providing best practices and unparalleled access to US market.
- 7. Customer centric business development** – Business development is happening in Indian GCCs with the customer in focus as customer centricity drives growth and value for these Indian GCCs, hence fostering brand loyalty and monetizing services.
- 8. Collaboration with govt on policy formulation** – Indian GCCs and the govt agencies continue to engage and collaborate, which further fuels investments, streamlines processes, and fosters innovation. These result in favourable policy formulation as well as engaging dialogues between all stakeholders.

Monetizing the services

Peer Collaboration

Gen AI paradigm

General manager roles from India

Hub-as-a-service transformation

Wormhole for EU and Asian MNCs for US market

Customer centric business development

Collab with govt bodies for policy

GLOBAL CAPABILITY CENTRES (GCC) – KEY DOMAINS AND PLAYERS

Indian GCCs are ready to take the next big leap over the coming decade. GCCs will focus on these three key aspects over the next decade:

- Adoption of digital technologies
 - Building new-age technology CoEs around AI/ML, Cloud, IoT, etc.
 - Transitioning to hyper-converged infrastructure for supporting digital work-loads.
 - API-led development to reduce the time-to-market for new age applications.
- Delivery model transformation
 - Adoption of productized models for product and application development.
 - Becoming hotbeds for multi-function shared services centres.
- Future skills development
 - Re-skill the workforce and acquire niche skills.

Six key domains have emerged as new-age technology hotbeds, where GCCs in India can present a value proposition to assert their increasing importance on the global technology landscape:

- Artificial Intelligence (AI)/ Machine Learning (ML)
- Internet of Things (IoT)
- Data Analytics
- Cloud / Cyber security
- Remote Process Automation (RPA)
- Blockchain

Type of GCC centres	Feature
Shared service centers	Finance, HR, IT, and procurement, all at one place for efficiency.
R&D centers	Innovation hubs for new products, technologies, and processes.
Knowledge centers	To help organizations remotely share information.
Innovation centers	Companies can develop new ideas, conduct research, and build prototypes.
Customer service centers	For managing customer inquiries, complaints, and feedback.

Key GCCs in different verticals operating out of India

Software/Internet	Manufacturing	BFSI	Healthcare	Automotive
Adobe	Akzo Nobel	JP Morgan	Abbott	Fiat Chrysler
Google	Adidas	Goldman Sachs	AstraZeneca	Ford
Microsoft	BASF	BNP Paribas	GlaxoSmithkline	Honda
Oracle	Danaher	Nomura	Mylan	Hyundai
Pegasystems	Cummins	AIG	Pfizer	John Deere
Indeed	Dow Chemical	Barclays	Boston Scientific	Komatsu
Go-Jek	Dupont	American Express	Johnson & Johnson	Continental
Retail CPG	Travel	Aerospace	Telecom	Energy
AB inbev	Amadeus	Airbus	AT&T	Exxon Mobil
GAP	Expedia	Boeing	Verizon	Baker Hughes
Hersheys	Fedex	Bombardier	Telstra	Castrol
Lowe's	Sabre	Lockheed Martin	Sprint	Shell
Modelez	Travel Tripper	Safran	Ciena	Total
Pepsico	Kuoni	Thales	Ericsson	Valvoline
Target	Maersk	Collins Aerospace	Netgear	Halliburton



GLOBAL CAPABILITY CENTRES (GCC) – KEY CHALLENGES

Companies across the globe are actively deliberating setting up their own captives versus engaging with a third-party service provider. This dilemma itself is a testimony of the value that GCCs provide. However, GCCs are also not without their share of challenges:

Domain knowledge:

Even after over four decades of being in operations, GCCs in industries such as insurance, BFSI and energy, still do not have enough people with adequate skill sets and deep domain knowledge; this limits the growth potential.

Leadership:

Leaders who have an ability to match both technical and business perspectives are very rare in the Indian GCC ecosystem. Leaders with the adequate skillset prefer to work for third party vendor, where they can see a clear career path to the CXO position, as opposed to a longer and uncertain future in GCCs.

Talent attraction:

GCCs are facing a significant challenge in attracting talent, as a number of newer GCCs and start-ups are coming up with competitive talent-attracting policies. The Indian start-up ecosystem has undergone exponential expansion over the last decade, leading to salary levels reaching unprecedented levels.

Financial constraints/cost arbitrage:

While Indian GCCs have traversed the value chain and are now increasingly demonstrating their effectiveness as centres of excellence (COEs), the cornerstone of their existence remains the cost-arbitrage model. However, an increase in the quality of work being delivered and higher competition to attract/retain talent has meant greater pressure on maintaining the cost arbitrage.

Technology disruptions:

With the technology disruption caused by digital transformation, GCCs are facing difficulties in keeping pace with the transformation, both in terms of infrastructure and talent. Simple case in point being availability of data scientists (for analytics) and people trained in cloud application development (cloud).

Looming Global Recession:

The economic/ financial crisis may lead to many of the MNCs, struggling financially, to terminate/postpone their plans to set-up/expand their GCCs in India/ROW.

It is also widely anticipated that many MNCs might actually shut down their GCCs, by selling them off to IT services vendors – to effectively monetize their 'non-core' assets to remain financially viable.



GLOBAL CAPABILITY CENTRES (GCC) – KEY MARKETS IN INDIA

There are six highly sought-after Indian locations that offer a suitable environment to facilitate the development of global capabilities centres. Common features of these locations include enabling infrastructure, presence of market leading companies, access to talent pool, and a supportive ecosystem – education, regulation and tax policies, research, and mobility.

Bengaluru is the most preferred destination, renowned for its thriving ecosystem and established infrastructure. The Delhi NCR, including cities like Delhi and Gurugram, follows closely, offering a strategic location and access to a vast talent pool. Hyderabad and Pune also garner significant attention, recognized for their technological advancements and supportive business environments.

Around 203 million square feet of space are occupied by GCCs out of which nearly 55% are concentrated in Bengaluru and Hyderabad. Especially the 'Center of Excellences' (CoE), which provide services in specialised areas such as data analytics or serve as innovation hubs in processes or products for the parent companies. An estimated 240 + CoEs are housed in India as per Nasscom.

Tier 2 Cities are now emerging as the preferred for setting up these centers, primarily due to their cost advantages in terms of lower wages and rapidly developing infrastructure. Cities such as Visakhapatnam, Jaipur, Vadodara, Kochi, Bhubaneswar, and Chandigarh have gained traction in attracting the establishment of new GCC centres. In Tamil Nadu, following Chennai, Coimbatore is rapidly emerging as the next major GCC hub.

While traditionally Fortune 1,000 companies looked at a large base of hundreds of employees, now even global small firms to mid-sized firms whose revenues ranging anywhere from 300 mn to 5 billion are looking to set up capacity hubs with even small 50-100 member teams.

As global macro uncertainties have pressed enterprises to pursue diversification plans, companies are placing their confidence in India given the digital innovation and vibrant start-up ecosystem. Over the next 2 years, we expects the number of global capabilities centres to grow by over 1,900 in number, employing about 2 million people with an estimated revenue of 60 billion dollars. This has a huge potential in terms of space demand of around 100 million square feet.



GROWTH OF GCCs IN HYDERABAD MARKET

Conducive Ecosystem

Hyderabad as a city is slowly emerging as a clear winner in attracting new investment for setting up GCCs (Global Capability Centres), surpassing traditional rival Bengaluru. These two southern cities have historically seen maximum number of global enterprises setting up their technology captives. But Hyderabad as a city is slowly surpassing Bengaluru of late. Hyderabad attracted more numbers of GCCs in the first half of 2023 as compared to Bengaluru.

Hyderabad's proposition has been anchored on two critical factors – high-quality talent and world-class infrastructure. The city has witnessed growth in both the quality and quantity of talent, fuelled by its reputation as an educational hub that houses globally-recognized institutions such as ISB, IIT, and BITS Pilani. Moreover, about a third of the employees working in any IT company in India are estimated to be from Hyderabad and surrounding areas. Telangana produces about one lakh engineers every year. The attrition levels in Hyderabad are half of those at other metro cities

The city has shown admirable growth and resiliency during the past two years, recording one of the country's highest growth rates for global service delivery. Microsoft, Google, Amazon, Apple, Wells Fargo, Bank of America, HSBC, Franklin Templeton, Broadridge, ADP, J P Morgan, Novartis, Deloitte and others already have their GCCs in Hyderabad

GCC success stories in Hyderabad

In the last five to seven years, several new players like the like DBS Bank, Pepsi, Chubb, Mass Mutual, Goldman Sachs, Swiss Re, Advanced Auto Parts, Arcesium, GAP, ZF, State Street, Intel, ICE, F5 Networks, Micron, and Callaway Golf have chosen Hyderabad for their GCCs.

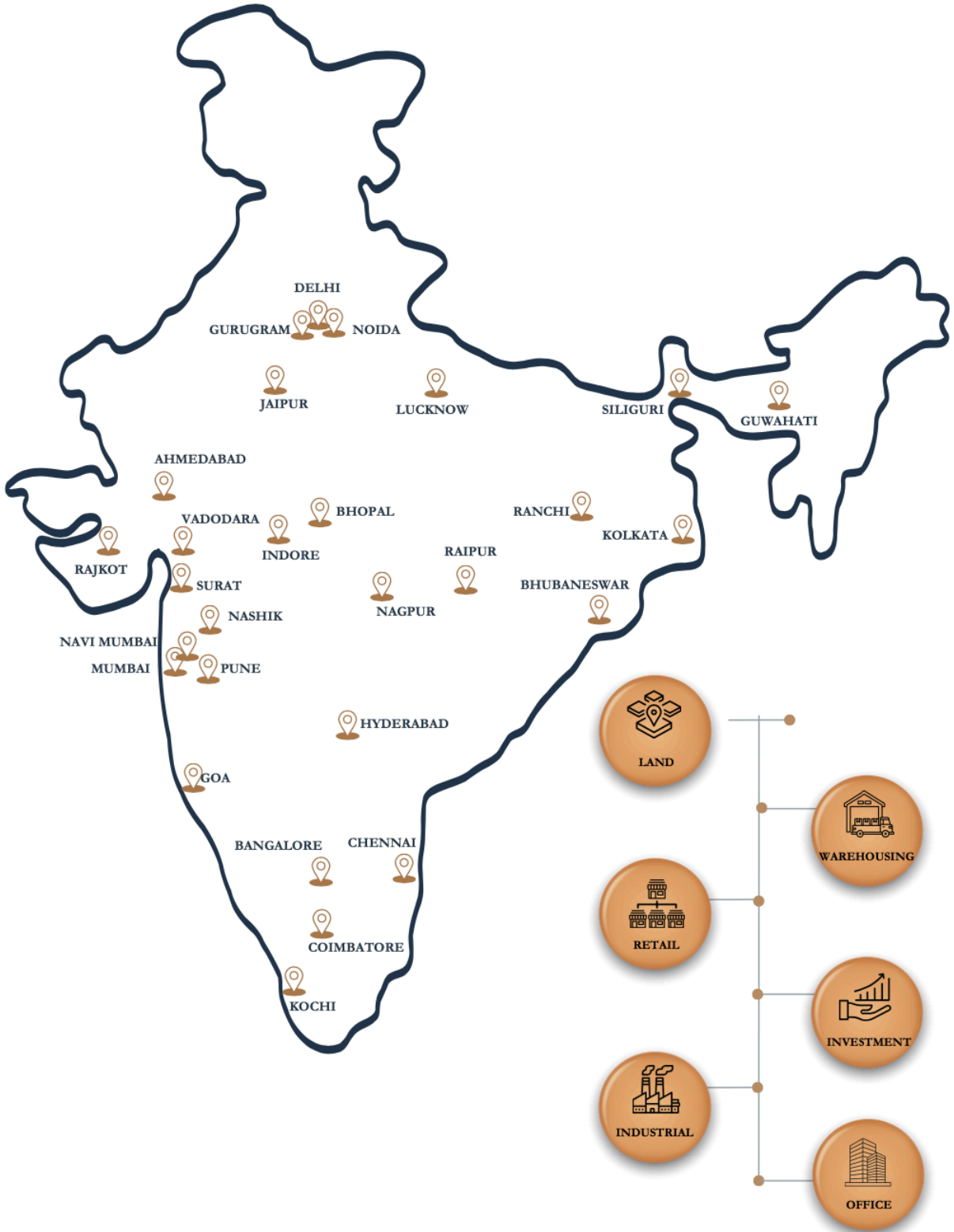
- Uber started with 500 employees, now crossed 2,000 and still expanding
- ZF (Germany) launched in 2017 with 1,000 employees target in five years. Its headcount has now crossed 3,000 and expanding
- Micron set up its engineering and R&D unit five years ago. It now has its largest presence in Hyderabad globally after its headquarters

Notable among the GCCs that were opened in the first half of 2023 in Hyderabad are:

- Goldman Sachs which opened a Centre of Excellence for consumer banking services, business analytics and platform engineering.
- Lloyds Banking Group opened a GCC focussed on cybersecurity
- American financial services group, State Street opened an AI augmentation and data analytics centre in Hyderabad
- FedEx opened a centre focussed on supply chain.
- Apollo Tyres opened a centre from which AI, cloud computing, IoT, ML-related research work will be done.

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