CONSUMER AND RETAIL GROUP

Insourcing at Scale: Reclaiming Control Through Global Capability Centers

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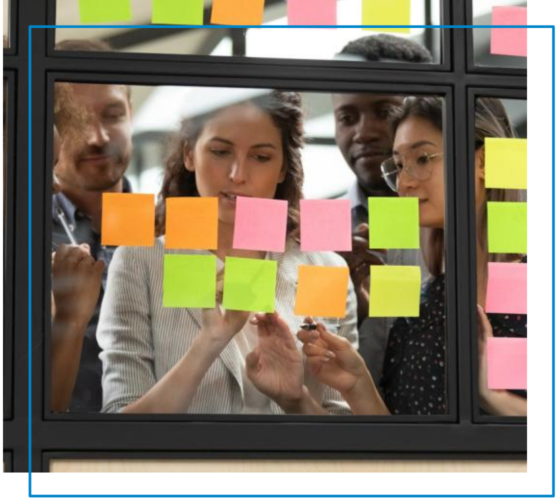
Global Capability Centers



The shift is clear: companies are bringing strategic IT capabilities back in-house. As data-driven business models, generative AI, and cybersecurity threats converge, organizations must balance direct control over strategic IT delivery while keeping costs down. Global capability centers (GCCs) have emerged as an important option.

The insourcing imperative

For the past several decades, companies, in search of lower costs, outsourced support functions. Now that's reversing, particularly in IT. As technology becomes a crucial differentiator in business strategy, more companies are insourcing IT capabilities to improve service delivery, maintain competitive advantage, foster innovation, and align more closely with core business objectives.

Five drivers fueling the trend

01

Speed matters. In today's fast-paced market, swift IT product and Agile service delivery is vital. Insourcing core IT functions streamlines processes and reduces external dependencies, enabling faster response to market demands. By eliminating procurement steps and vendor negotiations, organizations become more agile. Thoughtful insourcing of core IT functions—data and analytics, UX design, enterprise architecture, DevOps roles—can **increase throughput by 40% or more.**

02

Proximity drives results. As tech becomes core to many functions, bringing IT and business operations closer together fosters alignment and collaboration. This proximity enhances communications, enables more tailored solutions, and can **double customer satisfaction (CSAT) scores.** With agile full-stack development, many companies have deployed product teams that include both business and IT resources working side by side.

03

Knowledge is power. Outsourcing often results in a loss of business knowledge as external vendors perform key tasks. Insourcing reverses this trend and helps retain institutional knowledge within the four walls of the organization, ensuring that expertise and insights remain accessible for decision-making. This is particularly critical as companies build proprietary capabilities in emerging technologies.

AI requires control. The rapid adoption of technologies like AI and machine learning requires specialized skills and close integration with business strategies. Insourcing enables organizations to build these capabilities internally, fostering innovation, talent attraction, and competitive advantage. As AI becomes central to business strategy, **protecting intellectual property (IP) related to AI models and data is paramount.** Insourcing provides a secure environment for developing and managing IP, reducing the risk of exposure to external parties.

04

05

True costs add up. Although outsourcing was initially perceived as a cost- saving measure, organizations have come to recognize the hidden costs associated with managing external vendors—additional oversight, miscommunications, and delivery quality issues. Insourcing can lead to long-term cost efficiencies by providing better control over budget allocations and eliminating vendor markups.

As organizations consider in sourcing, one key decisions they face is how to execute the insourcing strategy –

Build or Partner?

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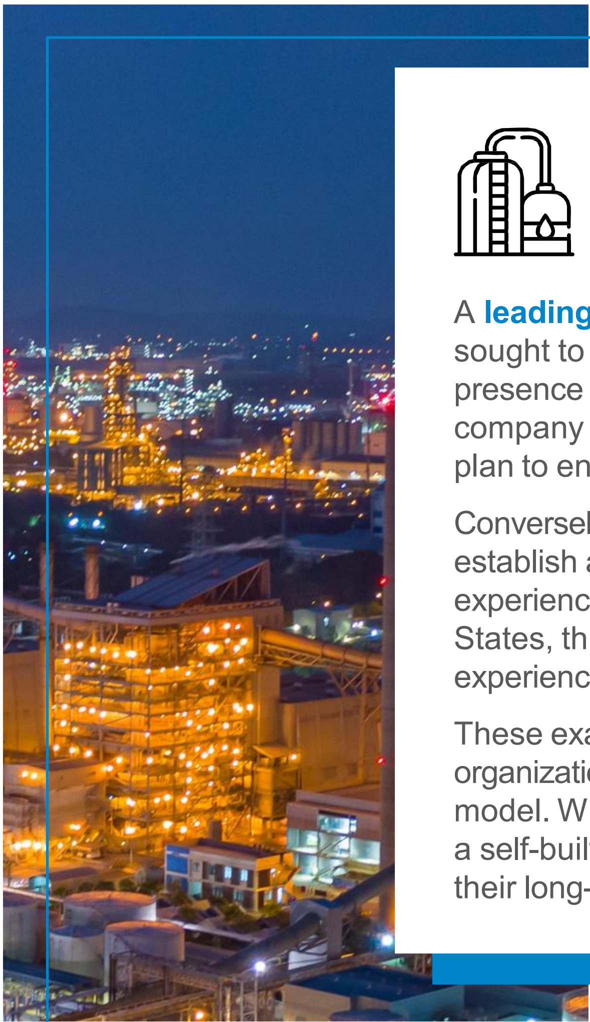
This decision is foundational in shaping the structure of the GCC, and the role it plays in the company – low cost back- office or innovation hub. The two primary options for GCCs are self-built and partner-assisted. Each model offers a distinct balance of speed, savings, and innovation.

Comparing Execution Models

Self-built	Partner-assisted
Independently establish and manage the GCC, maintaining full control over processes, resources, and strategy	Leverage partner talent pool, infrastructure, expertise, and other assets to accelerate the GCC setup
Setup time: 18-36 months	Setup time: 3-24 months depending on engagement model - - virtual captive, build-operate-transfer (BOT) and joint venture (JV)
When to choose self-built: • You have offshore delivery experience and familiarity with local markets • Your organization has strong brand presence in target geographies • You want maximum control and can cultivate company culture from day one • You're willing to invest 18-36 months in the setup process	**When to choose partner-assisted:** • You're new to offshore delivery and lack local market expertise • You have limited brand recognition outside your home market • You need faster deployment (3-24 months) • You want to leverage a partner's scale benefits and existing infrastructure • You're willing to accept potential loss of some in-house expertise in exchange for speed
Advantages	
• Maximum control over processes and strategy • Easy to cultivate company culture • No premium paid to partners	• Limited upfront investment • Partner's scale benefits reduce per-unit costs • Faster time to market
Disadvantages	
• Large upfront investment (high fixed costs relative to size) • Longer setup time could delay business case realization • Must build local expertise from scratch	• Potential loss of in-house expertise • Premium paid to partner for services • Could involve complex financial arrangement and management structure (especially in JVs)

Real-world examples



A **leading chemicals manufacturer** with a presence in India sought to scale its offshore capabilities. Leveraging its brand presence and familiarity with offshore delivery models, the company opted for a self-built approach, with a contingency plan to engage a vendor to mitigate potential delays.

Conversely, a **US retailer company** chose the BOT model to establish a nearshore hub. With no prior offshore delivery experience and limited brand recognition outside the United States, this approach allowed the company to partner with an experienced supplier to build and manage operations effectively.

These examples underscore the importance of evaluating each organization's long-term needs when selecting an execution model. Whether opting for virtual captives, BOT, joint ventures, or a self-built approach, companies must align their choices with their long-term goals and operational capabilities.

Build Operate Transfer – is it the best balance of the two major options?

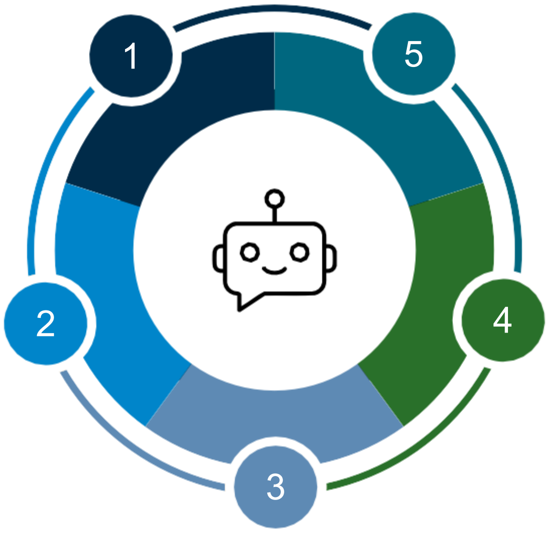
The answer to this question is "it depends". We notice that on paper BOT checks a lot of the boxes of a **risk mitigated rapid buildout.** However, it is no panacea, and organizations often find a many challenges they need to navigate in BOT relationships:

Candidate quality

BOT partner may not able to provide resources that meet the quality requirements, especially if the client does not have a significant brand recall in the target geography. Remember most SI's are not in the business of offering you their best talent to take over.

Heavier than expected program management

Clients often discover that they need to heavily supervise resource identification and onboarding which becomes burdensome especially when done remotely from leadership located onshore.



Training requirement of incoming staff

The incoming staff are typically not as proficient as the onshore staff requiring additional training.

Transfer back is a challenge

Many BOTs don't fully complete the "Transfer" part of the arrangement due to organization fatigue and new priorities. These are further complicated by the supplier's preference to "Operate".

Culture

Incoming staff often perpetuates the culture of their prior employer. Hence incoming staff can be seen as misfits initially.

All these challenges can be mitigated through a thoughtful approach and a structured program, however organization must not see BOT as a "turnkey solution". They need to own the deliverables from day-one, even though the supplier has responsibility during "Build and Operate" phases.

Take action now

Global capability centers can help make an organization more competitive without breaking the bank. By carefully with your execution model and tailor it to align your specific business goals and risk appetite.

We encourage business leaders to develop adaptable IT capabilities that drive both innovation and long-term growth. By seizing this opportunity, organizations can confidently manage the challenges of today's global landscape while laying the foundation for enduring success.

The question isn't whether to insource strategic IT capabilities. It's how fast you can do it—and whether you'll lead or follow in the race for competitive advantage.

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