DIGITAL & TECHNOLOGY SERVICES

The Future of Business Operations – Global Capability Centers

Global Capability Center

The competitive marketplace requires companies to operate at unprecedented levels of efficiency to remain relevant. At the same time, business leaders, investors and regulators are mandating greater value, business support, and insights into business performance and opportunities. To meet these unprecedented demands for greater business value for less, companies are increasingly leveraging newer operating models, e.g., global capability centers (GCC), and technologies, e.g., machine learning (ML) and artificial intelligence (AI).

Companies are embracing GCCs to establish end-to-end business operations to achieve greater levels of customer satisfaction and business value, while reducing operating costs. GCCs help companies improve back-office operations, for example, through fully integrated and centralized operations while reducing costs often by leveraging lower-cost locations, such as India, Philippines, Malaysia, Poland and Romania. While leveraging offshore, lower-cost operating centers is not new (it has been happening for over two decades), what is new is that companies are taking a step back and looking at their end-to-end operations in a more holistic way across geographies, time zones and companies e.g., business process outsourcing (BPO). GCCs can help mitigate the risks associated with those more complex operational environments.

Return to Companies Owning Their Own Operations

In addition to companies leveraging GCCs and newer technologies (e.g., ML, AI) to achieve greater business value for less, companies are increasingly taking back their operations from third parties in an effort to simplify and automate their operations, reduce their operational risks, and achieve higher levels of customer satisfaction.

Companies historically owned their own operations but over the past two decades started transitioning to third parties (BPOs) to leverage offshore capabilities. In the early 2000s, companies started leveraging Build-Operate-Transfer (BOT) solutions to take back ownership of their operations. BOTs are contractual arrangements with third parties (e.g., BPOs) to build a company's back-office operations (for example), often offshore, with the intent of operating it for some time, and then transferring it back to the company. Some key benefits of a BOT solution typically include:

- Leveraging the operational knowledge and offshore presence, facilities and reputation of a third-party provider to establish the operation and reduce execution risk.
- Operating and stabilizing the operation for some time as it matures.
- Transferring the operation back to the company to be reintegrated with business operations and governed and managed as a more integrated entity.

Although BOT models have been around for years, there is a resurgence of companies leveraging BOTs to establish or expand their offshore operations. This resurgence is driven by the advent of new technologies offering cross-organizational benefits, continued pressure to reduce operational costs, and a mandate to minimize risks and exposures.

Additionally, the rise in BOT adoption is partly due to the supplier market becoming more open to new business strategies as the more straightforward opportunities had already been exhausted. Between 2008 and 2016, suppliers were reluctant to engage in BOT models, except for large-scale projects, fearing they were transferring their intellectual property too cheaply. However, as technological advancements began to threaten supplier revenues, they became more amenable to BOT arrangements to protect their top line.

Initial Questions and Considerations for a GCC

- What is the vision and mandate for the GCC (e.g., what services should it provide).
- Where should the offshore component of the GCC be located (e.g., country, city).
- How should the GCC be staffed (e.g., number of resources, locations, skill sets, incentives, training, retention).
- What technology should be leveraged by the GCC. When and how will it be funded.
- How should advanced technologies like ML, AI, and large language models be leveraged.
- What is the appropriate partnership agreement and legal entity structure for the GCC (e.g., considering capital, tax and liquidity).
- How are risks managed (e.g., liquidity, third party, reputational, business).

Strategic Deployment of Technology

While newer technologies like ML and AI have promise, specific use cases and a history of success is still evolving. Most companies are taking a pragmatic approach by identifying and prioritizing automation opportunities and selecting initial ones that are either expected to have positive ROI within a reasonable time or that can provide insight into future applications that make business sense.

> AI and ML help enhance value and reduce operating cost through more efficient and higher quality processes.

However, there are high expectations of the significant business value these newer technologies offer, and early adopters will benefit the most. Companies also appreciate the value of intellectual property associated with these newer technologies, have an interest in keeping them as competitive differentiators, and appreciate that consulting firms, like A&M, typically have more advanced capabilities in these areas than traditional operations/BPO firms.

Managing a GCC

There are many complexities and risks associated with establishing and managing a GCC, including local tax laws and regulations, cultural and language barriers, and operational complexities. Some initial questions and considerations are listed above, but many more need to be addressed and managed along with business stakeholder priorities and considerations for a GCC to be successful.

How Alvarez & Marsal Can Help

Setting up a GCC is complicated, and success depends on careful planning and execution. For a new entrant to the desired country, leveraging an established service provider via a BOT structure could help position the program for success. The BOT needs to meet each company's unique requirements and address key environmental and operational design considerations, some of which are listed above. Alvarez & Marsal specializes in assisting companies with helping them define their GCC strategies, address key questions for their GCC, select service providers as appropriate, manage the establishment of their GCCs, and transition to their new operating model. Our experts support clients through this process, as it develops and implements a roadmap to drive best-in-class operations, quickly and cost effectively.

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