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# Moving up the Value Chain, BPO to KPO - The Indian Scensario

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## *Abstract*

*The Indian Outsourcing industry is moving up the value chain. It is in a state of transition from BPO to KPO. The maturity and evolution of outsourcing strategies is leading businesses to shift towards the off-shoring of high-end processes to low-wage destinations, a trend referred to as KPO. This involves off-shoring of knowledge-intensive business processes that require significant domain expertise.*

*The myth that Indian companies can only Provide "Software Coolies" is soon changing to the reality that they are capable of anything, even rocket science! India's intellectual potential is the key factor for India being the favoured destination for KPO industry.*

*In this paper an attempt has been made to focus on the transition of BPO to KPO ,India as a preferred destination for KPO services, Indian KPO market and challenges posed to it..*

## **INTRODUCTION:**

Outsourcing as a phenomenon is nothing new and has been going on since ages. But since 1990, the offshore outsourcing market has grown by leaps and bounds bringing it into scrutiny and speculations. It is worth mentioning that India has been certified as the No.1 outsourcing destination in a global study conducted by the U.S. Business Consultancy firm At Kearney<sup>1</sup>. The Business Process Outsourcing (BPO) boom has helped developing countries like India in a major way by creating quality job opportunities in turn benefiting the Indian economy. BPO emerged as a popular competitive strategy for multinationals resulting in the proliferation of call centres and creating huge opportunities for the educated unemployed youth in India.

The cost advantage of Indian BPO is constantly being challenged by ever increasing might of China and Philipiness. As it is mandatory for any living organism to mutate and to stay alive in the ever

changing environment, so is the case with business processes. It's no longer news that India is a global leader in the field of Business Process Outsourcing (BPO). The Indian outsourcing industry is moving up the value chain<sup>2</sup>. The maturity and evolution of outsourcing strategies is leading businesses to shift towards the off shoring of high-end processes to low-wage destinations, a trend referred to as Knowledge Process Outsourcing (KPO).

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**Table 1.1 Evolution of KPO**

Stage	Type of Outsourcing
Embryonic	Transaction services, medical transcription
Growth	Tele marketing, customer care, processing services
Specialisation	Knowledge process outsourcing

Source : Equinox corp, www.iflex solutions.com

KPO is one step ahead of BPO. It involves offshoring knowledge intensive business processes that require specialised domain expertise. According to Ravi Aron, Asst. Prof. of operations and information management at Wharton School of the University of Pennsylvania, "KPO is another flavour of BPO, where the work involved calls for some measure of expertise on the part of the agents that execute these processes"<sup>3</sup>

Alok Aggarwal, founder and chairman Evalueserve states "KPO provides value to the client through domain expertise rather than process expertise"<sup>4</sup>

KPO provides exciting opportunities to learn,

share and create for developing the new understanding and insights needed to shape the emerging information environment of tomorrow. There is a tremendous potential in the knowledge process outsourcing space. Unlike in BPO where the focus is on executing standardized routine processes, KPO involves processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgement and decision making.<sup>5</sup>

KPO entails the shifting from simple execution of standardized processes to carrying out processes that demand advanced analytical and technical skills. The functions covered under BPO and KPO differ in their natural form as shown in table 1.2

**Table 1.2 BPO turn to KPO**

FEATURE	BPO	KPO
Functions	Non core and routine	Core
Nature of Employment	For fresh graduates, undergraduates with good communication skills	For professionals like CA, MBA Engineers, Ph.Ds etc.
Professional approach	Work on process expertise	Work on domain expertise
Career difference	Considered by people as job not as a career	Considered by professionals as career
Working hours	24x7x365	Normal 8 hours working
Employee turn over rate	Very high	Comparatively less
Growth rate	Expected to be 26%	Expected to be 46%

Source: Dutta P.K: A lucrative career option - Knowledge Process Outsourcing, Employment News, 24<sup>th</sup> - 30<sup>th</sup>, Nov - 2007, pg -1

**FACTORS FUELLING BPO TO KPO MOVEMENT:**

Some key factors that may fuel the transition of BPO to KPO are discussed below

**Buyers of offshoring services save more at the higher end :**

Buyers of offshoring services save more at the high end of the value chain compared to the low end. Therefore, many of the current low-cost destinations will become a logical choice for companies for offshoring their high-end processes.

**Scarcity of highly Trained Specialized Talent pool in the Developed countries**

Developed economies such as the US, the UK, and Western European countries are already facing shortage of highly trained and specialized professionals in some knowledge – intensive high-skill sectors , such as R&D , engineering design,IT, financial risk management ,etc. One way to mitigate this skill shortage is to source talent from low-wage developing countries , which produce highly educated scientists and professionals. This has been the practice in the US for the past several decades . The US permits emigration of engineers, scientists and medical doctors from developing countries, such as India and China. With tighter visa regulations and cost-reduction pressures on MNCs, global offshoring of high-end services to low-wage counties to tap the existing talent

pool in a cost-effective manner is a viable and lucrative option.

**Maturity and evolution of present low-end destinations to the higher-end of the value chain**

The evolution of present low-end destinations to the higher end of the value chain, aided by the maturity of the processes , will result in organizations moving up the value chain to provide KPO services. Commoditization of BPO services will further boost this transition and the better margins expected at the higher end of the value chain might act as a deterrent for companies in accepting low-end work . The barriers to entry in the KPO industry are also higher , and therefore , offshoring companies may not have the same competitive pressures as are there in traditional BPO.<sup>6</sup>

KPO workers tend to have higher levels of education from engineers to MBA's to even Ph.D's. Only companies that have a strong pedigree,expertise, clear focus on the high end space, a proactive solution orientation and a collaborative mind set will emerge as the winners says ChanduNair, President & Director of Chennai based scope eknowledge<sup>7</sup>.

KPO has a high potential and is not restricted only to IT and ITES. The list of potential high end services of the KPO sector is represented in table 1.3

**Table1.3 Potential KPO sectors**

SNo.	POTENTIAL KPO SECTORS
1.	Intellectual property research
2.	Equity, Financial and insurance research
3	Data search, Integration and management
4	Analytics and data mining services
5	Research and information services in HR
6	Business and market research
7	Engineering and design services
8	Design ,animation and simulation services
9	Paralegal content and services
10	Medical content and services
11	Remote education and publishing
14	Pharmaceuticals and biotechnology
15	Decision Support Systems

Source:Evalueserve analysis

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### SOME IMPORTANT KPO SECTORS

When compared with other sectors R&D in Healthcare, Pharmaceutical, Biotechnology and Intellectual Property Rights industries achieve greater efficiency through the use of KPO.

**Healthcare:** The CII paper states "India has the opportunity to provide the best of the Western and Eastern healthcare systems. More than 70 percent of the American population prefer a natural approach to health and spend around \$25 billion on non-traditional medical therapies and products, thus making India one of their most preferred destinations because of Ayurveda, Yoga and Siddha.<sup>8</sup> More over, India has a proven healthcare system with over 60,000 cardiac surgeries done per year that matches international standards and patients from over 55 countries come to India for treatment.

**Pharmaceutical :** The Indian Pharmaceutical Industry has practically achieved self sufficiency's and global recognition as a low cost producer of high quality bulk drugs and formulations. The clinical trial costs in India is about \$ 25 billion as compared to \$ 300-\$ 350 million at the global level<sup>9</sup> offer significant cost advantages as much as 40% -60% .

**Biotechnology:** The Indian biotechnology sector too is expected to earn \$5 billion annual revenue by 2010.<sup>10</sup>

India offers excellent network of research laboratories, well developed base industries, rich biodiversity which makes it automatic base for KPO.

**Intellectual Property Research:** Intellectual Property Research is one of the high-end KPO services. Drafting and filing of patent applications with the United States Patent and Trademark Office is expensive and may cost between USD, 10,000 and USD 15,000. Off shoring of even a small portion of the patent drafting process can save upto 50 percent of the total cost. Some law firms in the US have already set up their back-end centers in India and others are joining hands with Indian companies for this purpose.

### INDIAN KPO MARKET:

Evalueserve report estimates that KPO market is expected to grow to USD 17 billion by 2010. India with its fire power of engineers, Chartered Accountants, Doctors, MBA's, lawyers, research analysts, scientific researchers and Ph.D's, is well positioned to address the global KPO need.<sup>11</sup> India's large intellectual pool with domain expertise in specialized areas, coupled with operative English language skills is another major advantage.

According to CII – India is emerging as new knowledge economy and is viewed as global KPO hub. According to Evalueserve, India is going to capture 71 percent of the global KPO market by 2010 depicted in fig 1.1

**Fig. 1.1 Projected share of India in global KPO market**



The number of KPO employees will increase from 25,000 today to 280,000 in 2010 - according to evalueserve analysis which is depicted in table 1.4

**Table 1.4 Job opportunities in KPO**

YEAR	WORLD	INDIA
2003-04	34,000	25,000
2006-07	1,06,000	75,000
2010-11	3,50,000	2,80,000
(projected)		

Source : Evalueserve Analysis

Along with India, countries such as China, Phillipines, Czech Republic, Israel Ireland etc are also expected to join the KPO Industry. Table 1.5 provides

the list of different KPO segments and service providers in India.

**Table 1.5 Different KPO Segments**

	KPO Segment	Service providers
1)	Pharma & research Development	Biocon , Shanta Biotech, Divis labs , Ranbaxy Dr. Reddys labs , Sun pharma etc.
2)	Animation & Design	Maya entertainment, Paprikaas, Prasad studios pentamedia graphics etc.
3)	Business & Market research	Scope e- Knowledge centre, Evalueserve, Mckinsey Knowledge centre, Office tiger etc.
4)	Writing & Content development	Tech books, Thomson digital, Lason , Innodata
5)	Legal services & Intellectual property	Evalueserve, Manthan services, IntercomIndia , Datamatics technologies
6)	Investment analysis & Equity research	Evalueserve, Amba, Adventivity , Office Tiger
7)	Engineering & Design	L& T, Thermax, Mahindra, Hero global design, Infotech enterprises
8)	Data Analytics	Evalueserve , Intercom India , Datamatics technologies etc.
9)	Learning solutions	Career launcher , IBM learning , Interpid learning solutions etc.

Source : Business India , Aug. 29<sup>th</sup>- Sep 11<sup>th</sup> , 2005 , p-51

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## INDIA – A VERITABLE GOLD MINE:

When compared to other countries India is at an advantage on all the aspects related to KPO.

The 2006 KPO white paper provides insight into current trends and explosive growth in the KPO industry and what will it take for India to become a

KPO hub as it has been for the BPOs. According to finding in the KPO white paper "India is by far the most attractive KPO destination, thanks to its competitive salaries (<40% of USA); proficiency in English (70+ million people); large and competent pool of quality professionals (nearly 3 million new graduates every year)." Table 1.6 represents the Indian advantage as a potential offshore destination.<sup>12</sup>

**Table 1.6 India – The potential offshore destination**

S.no	Parameter	Indian advantage
1	Cost of man power	Comparatively less
2	Geographic location	24 X 7 support
3	Demographic factors	High degree of proficiency in English
4	Government policies	Friendly policies
5	Other advantages	Large talent with good project management skills

Other aspects which make India as a preferred KPO destination are-

### The Indian Education System:

With the Indian way of education which lays great emphasis on higher education & specialization, a talent pool with specialized knowledge in any field is readily available.

The government of India has set up IIT's and IIM's across the country which are centers of excellence competing with the best institutes world wide. India has more than 250 Universities and engineering colleges providing computer education at degree/diploma level.

Another milestone was the establishment of IIIT as a joint initiative between the Government and Industry . A part form producing B.Tech /M. Tech/

Ph.D graduates, it also trains professionals and industry sponsored candidates.

The English Advantage: In all good educational institutions, from kindergartens to graduation & beyond, the preferred medium of education is English resulting in a significantly large population of educated & qualified professionals being conversant in English language.

Friendly Government Policies: The Indian government has recognized that knowledge process will influence economic development and introduced certain reforms which removed earlier restrictions.

**a) Infrastructure Improvements:** The government has been continuously improving infrastructure with better roads, setting up technology parks, enhanced connectivity, providing uninterrupted power to augment growth.

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b) **Setting Up Knowledge Parks:** The last five years have seen vast development in knowledge parks, with infrastructure of global standards in cities like Chennai, Bangalore and Gurgaon.

**Trust Factor :** NASSCOM and the government are taking proactive measures to ensure that India is viewed as a destination for trustworthy outsourcing. Efforts at Data Privacy and Information

**Security:** Indian companies are increasingly serious in protecting the information of their customers <sup>13</sup>

**Employee Scrutiny:** Employee background checks are a regular feature of the recruitment process. Many measures have been taken up towards alleviating concerns of privacy and information security of customers wishing to source services of Indian KPO vendors.

**Quality Standards:** Companies in India have achieved high levels of quality standards. More than 200 companies are quality accredited and serve over 255 fortune 500 companies.

**Reverse Brain Drain:** With business opportunities in India becoming on par with those overseas, many highly qualified Indians are opting to return.

#### **CHALLENGES IN KPO:**

Even though KPO presents substantial opportunities in business, however there are some formidable challenges in the path of their development which include –

- Employee Attrition – KPO's are badly hit with attrition since they rely on highly skilled workers who are in short supply.
- Employability - Despite India's huge educated workforce, only a small percentage are employable.
- Data Security – The combination of analyzing and organizing valuable personal data tempts employees to illicitly profit from the data, KPO projects require a higher level of control, confidentiality and enhanced risk Management.

- Lack of talent pool – Scaling up of KPO operations will be difficult, primarily owing to difficulty in finding highly trained professionals.
- Lack of higher quality standards – processes executed within the KPO domain require higher quality standards because the stakes for the clients are high.<sup>14</sup>

#### **CONCLUSION:**

KPO is all set for explosive growth in India. The challenges posed to the KPO sector need to be addressed and despite these challenges, it is not surprising that India has been ranked the most preferred KPO destination owing to countries large talent pool.

However, the opportunities for growth in KPO sector is clear and India has an opportunity to grab a large share of it as it possesses cost advantage over many countries. India is well equipped to meet the challenges and all set to be the global KPO hub.

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