



EVALUESERVE
Expert Knowledge Services

Analytics – India Desk Research

Indian KPO: How to capture the potential?

4 May 2005



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Evalueserve

Rohit Dogra

Rohit.dogra@evalueserve.com
Tel: +91 124 515 4000 (Ext 4580)
Fax: +91 124 256 2393
India

India Team

Amit Chaudhary
Ajay Bagla
Ami Khurana

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1 Executive Summary

The Indian KPO sector, with revenues of 0.72 billion in 2003, accounted for 56 percent of the global KPO sector. According to Evalueserve, the share of the Indian KPO sector is expected to increase to 71 percent of the global KPO sector, with revenues of USD 12 billion, by 2010.

Evalueserve estimates that the Indian KPO market is expected to grow at a CAGR of 49.5 percent between 2003 and 2010, compared to a CAGR of 30.6 percent for the Indian BPO market, and a CAGR of 44.5 percent for the global KPO market, over the same period.

The services sector accounted for about 51 percent of India's GDP in 2003, a figure that was much higher than 28 percent in 1950, and also one of the highest among the developing economies. Evalueserve estimates that the share of the services sector is expected to rise to 57 percent in 2010, and the phenomenal growth of the IT software and services sector has remained one of the major components of the growth of the Indian services sector.

Outsourcing of high-end jobs is a win-win situation for both the end client and the KPO vendor. Evalueserve analysis shows a positive change in the cost structure of the clients due to the outsourcing of jobs to low-cost destinations like India.

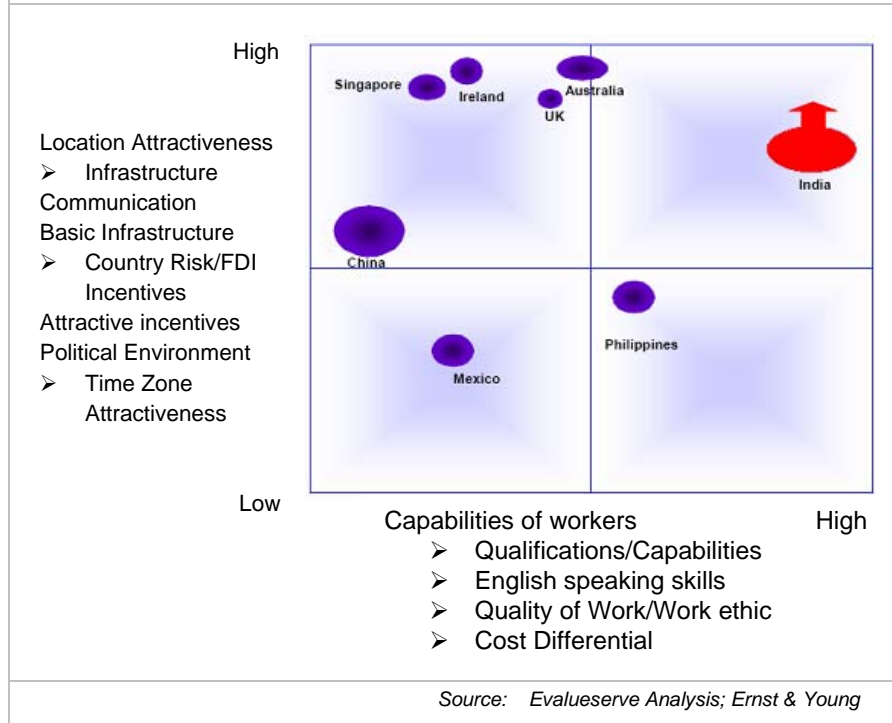
Figure 1: Indian IT-ITES Sector to KPO Sector: 1990s-2005

Started in:		1990s	1998	2000
		IT-ITES	BPO	KPO
Market Size - 2003		USD 21.5 billion	USD 2.78 billion	USD 0.72 billion
CAGR: 2003-2010		27.5%	30.6%	49.5%
Share in Indian Services Sector		7.03%	0.91%	0.24%
Share in Global Market	2003	1.6%	36.1%	55.8%
	2010	NA	45.2%	70.6%
Service Offerings		IT Services: System Analysis; Network Design; Software Implementation; Systems Integration; R&D Engineering; Remote Network Management	Transaction processing; Setting up a bank account; Selling an insurance policy; Technical support; Voice and email-based support	Corporate and Business Research; Valuation Research; Investment Research; Data Analytics and Modelling; Patent Filing; IP Asset Management

Source: Evalueserve Analysis; Nasscom

India with its large pool of chartered accountants, doctors, MBAs, lawyers and research analysts, is expected to dominate the KPO sector along with the BPO sector. In fact, India's edge in providing KPO services will help it stay way ahead of other low-cost outsourcing destinations in the global outsourcing market.

Figure 2: India – A Preferred Outsourcing Destination



There are immense opportunities in high-end KPO for Indian firms. The potential high-end opportunities are in the areas, such as pharmaceuticals, investment banking, market research and competitive intelligence, bioinformatics, data search, integration and management.

2 Indian Services Sector

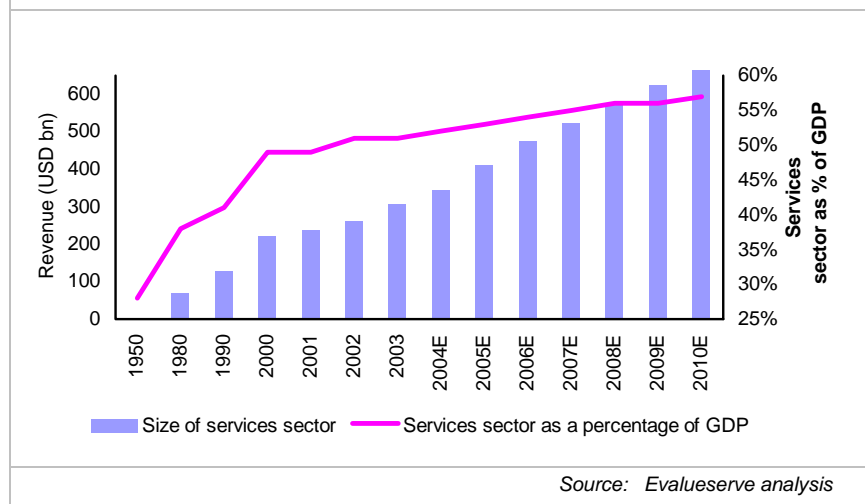
2.1 Contribution of the Service Sector to India's GDP

India emerged as one of the fastest growing economies in the world during the 1990s. This rapid growth is attributed mainly to its services sector. During the last decade, the Indian services sector has shown significant growth; it has continuously surpassed growth in other sectors of the Indian economy.

The Indian services sector is expected to increase by 12.6 percent per annum from USD 306 billion in 2003, to USD 675 billion in 2010

According to world development indicators released by the World Bank, India's services sector has grown at the rate of 8.1 percent per annum between 1993 and 2003, against 6.7 percent per annum between 1983 and 1993. The share of services in India's GDP has increased from 28 percent in 1950 to about 51 percent in 2003.

Figure 3: Growth in the Indian Services Sector

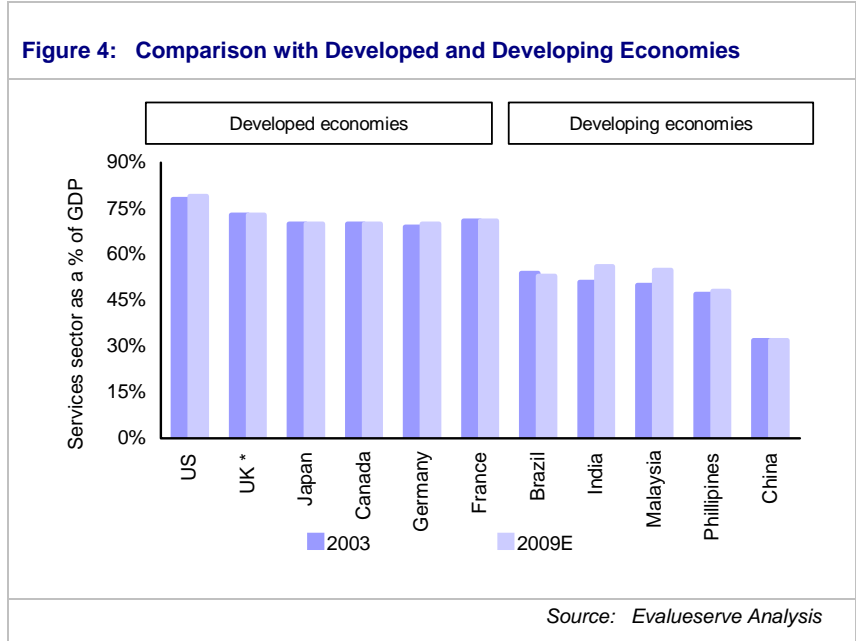


The phenomenal growth in India's IT software and services sector and India's leading position as an outsourcing destination, has remained one of the major components of the Indian Services sector growth. The sector is expected to increase by 12.6 percent¹ per year from USD 306 billion in 2003 to USD 622 billion in 2009. **Based on this, the contribution of the Indian services sector to GDP will be 57 percent by 2010.**

¹ The growth rate has been calculated, based on GDP forecasts at current prices, and hence reflects the nominal rate of growth.

2.2 Comparison with Developed and Developing Economies

The Indian services sector accounted for 51 percent of the country's GDP, which is one of the highest among the developing countries. However, this is much less than the US services sector's contribution of more than 75 percent to the US GDP.



* The GDP forecast for UK is available till 2007

3 Emergence of the Indian IT-ITES sector

3.1 The IT-ITES Industry

3.1.1 Market Size

3.1.1.1 Global

The global IT-ITES market has generated revenues of USD 1,322 billion in 2003. Globally, North America and Western Europe were the major market players, and together accounted for more than three-fourth of the global IT-ITES market. The US alone accounted for 47 percent of the global IT-ITES market in 2003. IT services and BPO constituted the largest portion of the global IT-ITES spend, accounting for approximately 60 percent of the total pie.

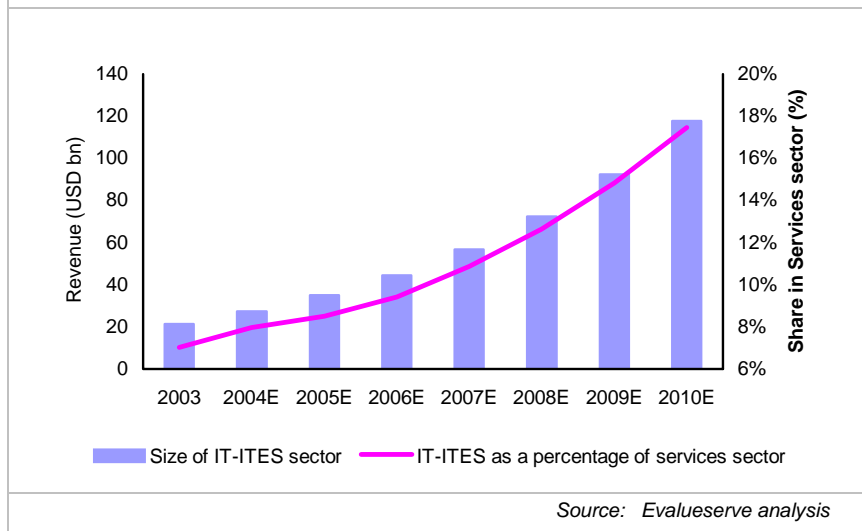
3.1.1.2 India

The Indian IT-ITES industry is broadly categorised into IT services, ITES-BPO and hardware segments. The industry achieved revenues of USD 21.5 billion in FY² 2003. Earnings from IT-ITES exports were USD 13.3 billion, while revenues of the domestic IT-ITES market were USD 8.2 billion.

At present, the Indian IT-ITES industry constitutes around 1.6 percent of the global IT-ITES market. The contribution to the Indian services sector was 7 percent in FY 2003.

The IT-ITES industry in India, with revenue of USD 21.5 billion in 2003, constitutes around 1.8 percent of the global market

Figure 5: Share of IT-ITES industry in the Indian Services Sector: 2003-2009



The Indian IT-ITES industry is expected to grow at the rate of 28 percent per annum during 2004-2010

The segment is estimated to touch revenues of around USD 92.4 billion in 2009 at a CAGR of 27.5 percent. The contribution to the service sector as a whole will go up to 17.45 percent in 2010.

² FY stands for Financial Year, which starts on April 1st of one year and ends on March 31st of the next. E.g., FY 2003 refers to the period between April 1, 2003, and March 31, 2004.



The key drivers of growth include the rapid increase in IT outsourcing and the rapid expansion in the scale and breadth of ITES-BPO offerings by Indian vendors.

The Indian IT-ITES vendors focussed on improving productivity and moved up in the value-chain. While companies providing IT services included new service lines, such as package software implementation, systems integration, R&D engineering and remote network management to their portfolio of offerings, ITES-BPO companies began more complex services, such as financial research and analytics, actuarial modelling, and corporate and business research.

3.1.2 Reasons for the Growth of the IT-ITES Sector

The major reasons for the phenomenal growth of the IT-ITES segment of the Indian services sector can be attributed to 'location advantage' and 'people attractiveness' factors, and India scores very high on both counts. According to a review by Nasscom, the above reasons include six major factors:

- A growing and highly educated English-speaking workforce with the required technical and soft skills
- Huge cost advantage
- Competent management of data security risks
- Adoption and maintenance of international quality standards
- World-class telecom infrastructure
- Government support

The growth is driven by the IT sector growth and India's attractiveness as an offshoring destination. In general, India has significant geographical advantage due to the time difference between the US and Europe, and so there is enough feedback time. In terms of people attractiveness, India has a large pool of highly-trained, English-speaking, low-cost labour, which adds as an attraction for offshoring more than anything else.

3.2 Business Process Outsourcing

3.2.1 Overview

Offshoring is a phenomenon, wherein an enterprise relocates the production of its goods or services to various locations in countries other than the one in which it is based. Offshoring – especially that of services – has become an increasingly viable option for companies looking to improve their operational efficiencies, bottom lines and business performance. In fact, to achieve global competitiveness and high profitability, it has now almost become imperative for most of the companies to offshore some of their IT and non-IT BPO services.

The global Business Process Outsourcing (BPO) market has undergone rapid transformation during the last decade, and has been adopted as a strategic business solution by leading companies. A reduction in telecom costs, coupled with the increased digitisation of services, is helping many companies to offshore their services.

3.2.2 Market Size

3.2.2.1 Global

According to Evaluesserve, the revenue of global low-end outsourcing (BPO) services in FY 2003 was USD 7.7 billion. This market is expected to grow to USD 39.8 billion in FY 2010. This implies a compounded annual growth rate (CAGR) of 26.5 percent for the sector.

3.2.2.2 India

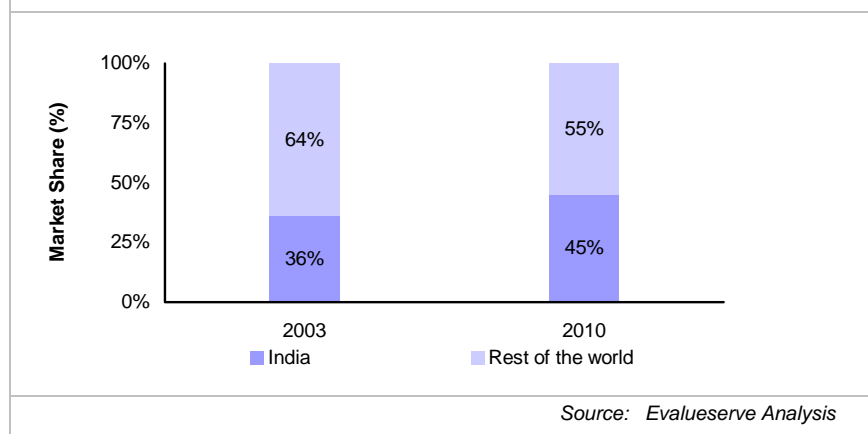
According to Evaluesserve, the Indian BPO sector will increase its share in the Global KPO sector to 45 percent by 2010, compared to a 36 percent share in 2003. The Indian BPO market, with revenue of 2.78 billion in 2003, is expected to grow at a CAGR of 30.6 percent up to 2010.

The contribution of the BPO sector to the Indian services sector was 0.91 percent in 2003, and it is expected that by 2010, the contribution will be more than double and reach 2.67 percent to add to the overall services sector.

The global BPO market will grow by 26.5 percent per annum from USD 7.7 billion in 2003 to USD 39.8 billion in 2010

Share of the Indian BPO sector in the global BPO industry will increase from 36 percent in 2003 to 45 percent in 2010

Figure 6: Share of the Indian BPO Sector in the Global BPO Market



4 Knowledge Process Outsourcing

4.1 Overview

Knowledge Process Outsourcing (KPO) refers to the outsourcing of high-end complex tasks and processes to specialised service providers. These include valuation research, investment research, patent filing, legal and insurance claims processing, etc. KPO provides value to the client through domain expertise rather than process expertise.

The central theme of the Knowledge Process Outsourcing (KPO) sector is to create value for the client by providing domain expertise rather than process expertise. In comparison to BPO, KPO delivers higher value to the organisations that offshore their domain-based processes, thereby enhancing BPO's traditional cost-quality paradigm. The shift from offshoring of low-end business processes (BPO) to high-end tasks has led to a rapid growth in the offshore KPO industry.

4.2 Market Size

4.2.1 Global

Evaluesserve predicts that revenues from the KPO market will grow globally from USD 1.29 billion in FY 2003, to USD 17 billion in FY 2010. This implies a CAGR of 44.5 percent, for the global KPO market. The important growth drivers of this market are:

- Higher savings at the high-end of the value-chain as compared to the low-end, and a scarcity of a highly-trained specialised talent pool in the developed countries
- Maturity of processes and the prospect of better margins for knowledge-intensive services in the low-cost destinations

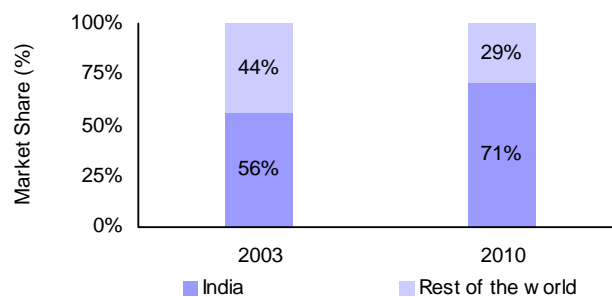
4.2.2 India

According to Evaluesserve, the Indian KPO sector will increase its share in the global KPO sector to 71 percent by 2010, compared to a 56 percent share in 2003. The KPO market in India is expected to increase to USD 12 billion by FY 2010, reflecting a CAGR of 49.5 percent.

The global KPO market will grow by 45 percent per annum from USD 1.29 billion in 2003 to USD 17 billion in 2010

The contribution of the Indian KPO sector to the global KPO industry will increase from 56 percent in 2003 to 71 percent in 2010

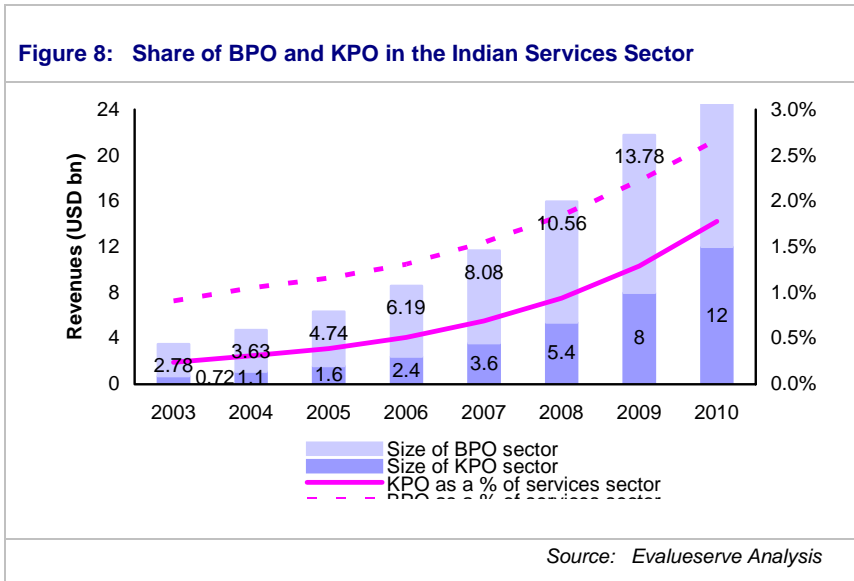
Figure 7: Share of the Indian KPO Sector in the Global KPO Market



Source: Evaluesserve Analysis

The Indian KPO sector is estimated to contribute 1.78 percent to the service sector by 2010

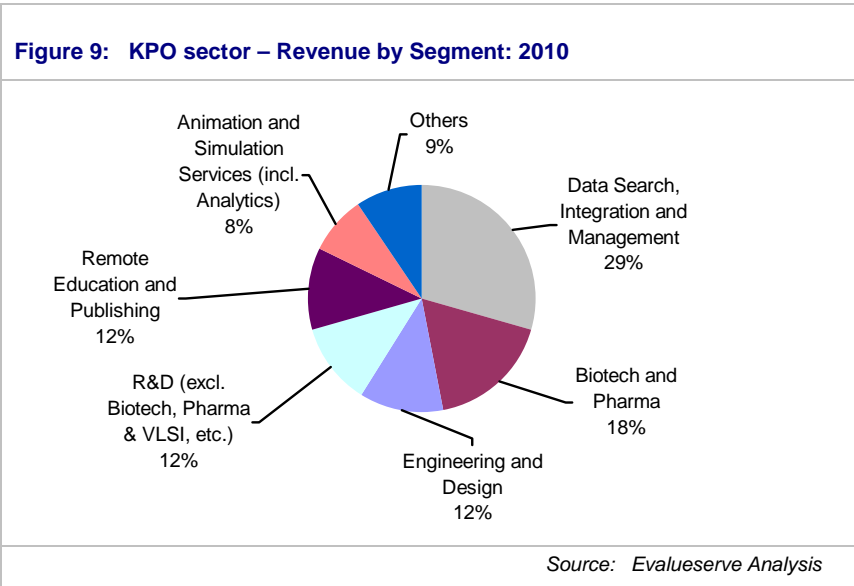
In FY 2003, the Indian KPO industry generated approximately USD 0.72 billion of the total revenue, contributing about 0.24 percent to the Indian services sector. This share is expected to increase to 1.78 percent of Indian services sector by 2010.



The US alone accounts for nearly 60 percent of the KPO services offshored to low-cost locations. The UK and Canada account for approximately a 20 percent share, while the remaining 20 percent is shared between the rest of Europe and rest of the world.

4.3 Key Segments

Out of the estimated opportunity of USD 17 billion in the KPO sector in 2010, the major revenues will come from six prominent sectors.





4.4 Growth drivers

The significant growth of the KPO sector is attributed to several factors on the demand and supply side.

4.4.1 Demand-side drivers³

There are several demand-side factors fuelling the KPO trend, such as:

- There is an incumbent shortage of highly-skilled knowledge professionals in the developed nations
 - Hence, recruiting the talents for higher-end knowledge-intensive sectors is becoming difficult for enterprises in high-wage countries
 - With tighter emigration norms, offshoring of these high-end services is the only viable solution for enterprises facing this shortage of highly-trained specialised labour
- Further, to remain competitive globally, enterprises need to cut their costs, and reduce the time-to-market for their services and products. Offshoring high-end services not only ensures these two benefits, but also the intellectual property thus created, rests with the buyer of the offshore high-end (KPO) services.

4.4.2 Supply-side drivers

India offers an attractive cost proposition and a highly-skilled talent pool. These factors make it a highly competent and attractive destination for outsourcing. The major trends in the Indian services market expected to drive the KPO sector include:

- Economies of scope generated by the entry of many IT companies in the BPO and KPO sectors
- BPO companies moving up the value-chain
 - Offshore service vendors are gaining significant maturity as well as project management and domain expertise, thereby moving up the value-chain.
- Availability of all types of services through a single vendor
 - With the entry of many IT and BPO companies into providing KPO services, clients can get the entire range of solutions and services through one vendor
 - More and more players in the IT-ITES and BPO sectors in India are entering the high-end KPO domain to broaden their services portfolio, which will help ward off competition from service providers in other emerging low-cost destinations

³ For further details on the demand-side drivers, refer to section 5, Value Proposition of KPO

4.5 Success Stories

4.5.1 GE Capital – Analytics

4.5.1.1 How it started – 1998

GE Capital – Analytics was started in 1998 with the objective to support the GE Consumer Finance group.

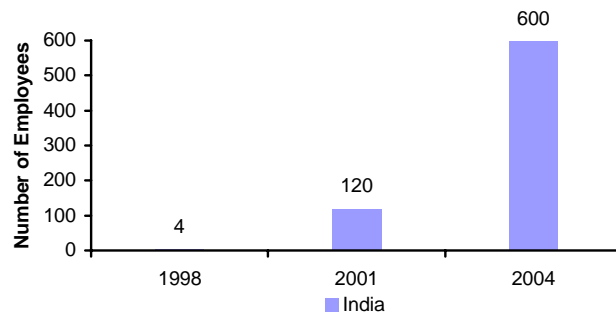
- Beginning with four people
- Operating from Bangalore
- Supporting the GE Consumer Finance group
- Area of Operation: Private Label Credit Card Analytics – Marketing, Risk, Collection

4.5.1.2 Where it stands today

A rigorous digitised and documented Business Process Management System (BPMS) governs the core analytic processes.

- More than 600 full-time employees on board with over 375 highly talented individuals who have Master's or Doctoral degrees from leading universities in India and abroad
- Operating from Bangalore and Gurgaon
- Supporting the various GE groups: GE Consumer Finance, GE Commercial Finance, GE Transportation, Genworth, ERC, Global Risk Group, GE Energy, GE Infrastructure
- Area of Operation: Risk, marketing, collections, pricing, logistics, asset management, supply chain and inventory management, e-business, business intelligence, and enterprise wide business solutions.

Figure 10: GE Capital – Analytics: Employee Strength



Source: Company reports

5 Value Proposition of KPO

Increasing competition has led to shorter time-to-market cycles, and customers are becoming more demanding in terms of quality. This has forced enterprises to adopt systems and business models that provide operational efficiency, and add strategic value to their products and services.

KPO services can enable enterprises to reduce design-to-market lead times; manage critical hardware efficiently; provide research on markets, competition, products and services; enhance organisational effectiveness in business administration; and help in dealing with rapidly evolving business scenarios. Finally, outsourcing solutions for high-end processes are usually customised and value-based. It is often this customisation that enhances the value proposition of KPO.

Cost reduction and enhanced quality will lead to increased competitiveness for the clients

Figure 11: Value creation by KPO for various segments

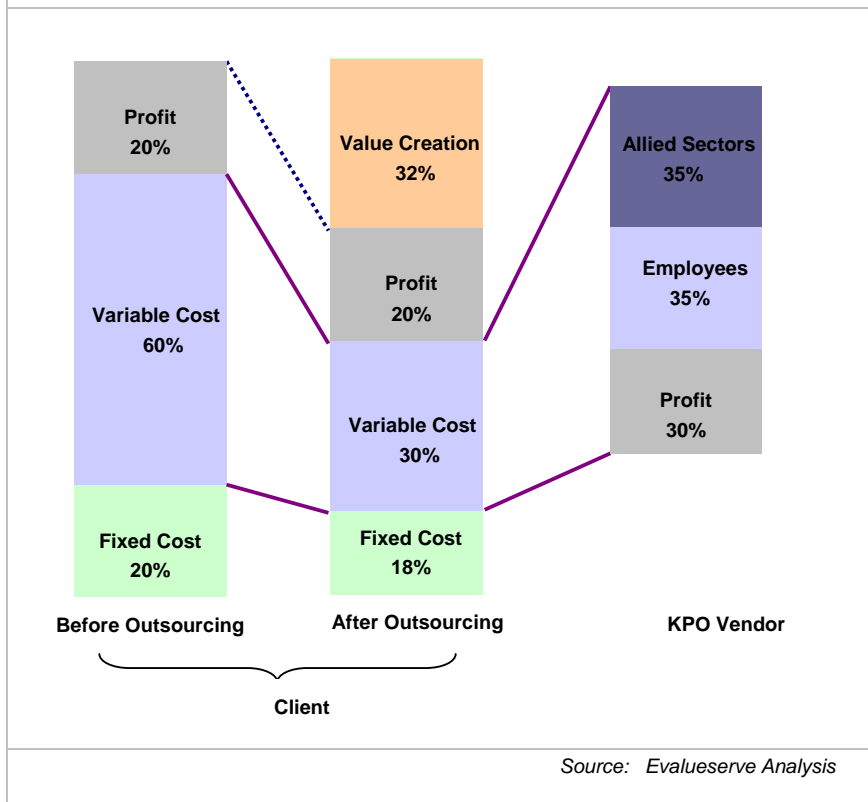


Figure 11 explains how outsourcing of high-end jobs is a win-win situation, both for the clients and the KPO vendors. The chart shows the positive change in the cost structure of the clients due to outsourcing of jobs to low-cost destinations like India. Before outsourcing, the revenue break-up of a typical management consulting firm in the US would be as follows⁴:

⁴ Based on Canadian Associations on Management Consultants (CAMC) Report on 2001 'Consulting Industry'



- Approximately 20 percent of operating revenue is spent on fixed costs
- Approximately 60 percent is spent on variable costs; and
- The remaining 20 percent is the operating profit margin for the client

A firm, by outsourcing its job to India, can benefit in terms of 40-70 percent cost reduction. According to a study by AT Kearney, a firm can reduce its fixed cost by about 10 percent on outsourcing of jobs. These savings in costs leads to value-creation for the 'clients' of KPO firms. Assuming that the profit margin for the client remains the same, there is potentially 32 percent of revenues, which can be deployed by the client, to enhance its competitiveness.

The variable cost of the client, which is mainly the cost of analysts, becomes the revenues for the KPO vendors, and is shared by various segments of the economy. On the basis of analysis done by Evalueserve, around 30 percent of the revenues of a typical KPO vendor are retained in the form of profits (before taxes). Approximately 35 percent of the revenues go towards employee costs. The balance, i.e., 35 percent of the revenues, represents the overhead costs, such as telecom, transport, catering, infrastructure costs, etc., of the KPO vendors. This translates into the revenues for the allied sectors, leading to a multiplier effect for profit and employment generation. In addition, a good portion of the increased salary of employees, and large profits of KPO, also goes into the revenues of allied sectors, such as retailing, real estate, education and infrastructure, creating larger multiplier effects for the economy as a whole.

5.1 Value-creation for the Clients

According to Evalueserve analysis, the maximum share of value-creation goes to the clients who are outsourcing the jobs. This comes in the form of lower costs and better quality, which in turn increase their competitiveness.

5.1.1 Cost Savings

India offers significant opportunities for labour arbitrage. According to Evalueserve analysis, there is a 40-70 percent cost reduction as compared to developed countries, depending on the type of jobs outsourced.

There is a significant difference in the salaries of skilled professionals in developed countries like the US and India. The average annual starting salary of an MBA is USD 85,000 in the US, while in India the average annual starting salary of an MBA is USD 12,000 – a potential cost saving of 85 percent.

Similarly, the average annual starting salary of a Ph.D. in the US is approximately USD 80,000. In comparison, the average annual starting salary of a Ph.D. in India is approximately USD 16,000. Such cost differentials make outsourcing of services to India an attractive proposition for companies in the US and Europe.

5.1.2 Availability of Skilled Knowledge Workers

India has one of the largest pools of knowledge workers. The supply of skilled labour in India has been increasing at a steady pace. Indian universities churn out two million English-speaking graduates every year⁵. Nearly 0.3 million engineering graduates are added to the existing

⁵ Source: www.mastek.com



engineering labour pool of 2.1 million. As of March 2002, India had 840 business schools, which churned out 65,000 MBAs⁶.

In terms of skilled IT workers, while just over 5,000 IT graduates enter the labour market in Germany, and 25,000 in the US each year, 120,000 enter the labour force in India⁷.

5.1.3 Peak Load Absorption

Offshoring of jobs to third-party vendors provides additional flexibility and agility to the enterprises. Any organisation outsourcing jobs to a BPO or KPO vendor does not have to build its own headcount and have to spend less on infrastructure. BPO allows an organisation to optimise its costs by eliminating the requirement for investment in resource commitments which leads to a favourable change in the cost structure. By offshoring jobs to a low-cost destination like India, an organisation can reduce its overhead costs, and can convert major portion of the costs from semi-fixed to variable. Post outsourcing, a very small portion of the total costs remains fixed since a client organisation consists mainly of front-office employees. This provides the client more flexibility in terms of making quick business decisions and greater ability to manage business cycle volatilities. A variable cost structure makes business operations of an organisation more immune to seasonal and cyclical fluctuations.

5.1.4 Complexity Reduction

By offshoring jobs to a BPO, an organisation can significantly reduce the complexities involved in managing, and a continuous knowledge building of a large pool of human resource. The management of the facility, ongoing training of employees and motivation and retention of employees require significant management efforts. By outsourcing, an organisation can transfer this burden to the BPO vendor, and can concentrate on the core strategic processes.

5.1.5 Acceleration of Process Cycles

Shortening of product cycles have become a critical element of success for global companies in today's rapidly changing market conditions. It provides the required competitive edge to the clients. Outsourcing non-core activities to specialised firms that are better, faster and more efficient at managing these processes, can accelerate the process cycles and reduce the turn-around time for these services. The client can launch a product faster and get to the market quickly. The ramp-up time is reduced for the client since the BPO service provider already has trained manpower and infrastructure in place. Differences in time zones also offer a strategic advantage. The US and India have an average 12-hour time zone difference. Hence, an offshore vendor in India can provide a virtual 24-hour office to a client in US.

5.1.6 Access to Global Reach

Offshore service providers are realising an increased need to expand beyond the local boundaries and have a global presence. Due to rapid globalisation of the services economy, outsourcing has become a business necessity. Setting up an offshore unit involves investment in facilities, infrastructure and human resources. These costs can be reduced to a large extent by outsourcing activities to a BPO vendor.

⁶ Source : [Business World India](#)

⁷ Source : [Deutsche Bank research](#)



High growth in the KPO sector will lead to an increase in jobs from 25,000 at present, to 250,000 by 2010

The average annual salary in India is USD 8,800 per annum in KPO as compared to USD 6,000 per annum in BPO

5.1.7 SME Solutions

Small and medium enterprises (SMEs) benefit the most from outsourcing of jobs to third-party vendors. SMEs generally have a very small setup, and the overhead costs are very high for them since they cannot fully take the advantage of the economies of scale. Offshoring can have an immense effect on the bottomline of a small enterprise simply by controlling the costs. SMEs can avoid the initial set-up costs and the associated fixed costs by outsourcing some of their activities. This will help these enterprises to increase the Net Present Value (NPV) of the project, or in many cases can turn the NPV from negative to positive. Hence, the projects that were not feasible earlier can now be profitable.

5.1.8 Enhancement of Service Quality

The Indian BPO industry has achieved global standards in terms of quality. According to a survey conducted by Nasscom and QAI, which benchmarks the performance of Indian ITES-BPO industry on key operational issues with global industries, the range of end-user satisfaction ratings for Indian BPO organisations is 82-100 percent, while the quality range is 98-100 percent⁸. This is mainly because of the large English-speaking population of India, and the supply of talented and technically skilled workforce. India has 24 CMM Level 5 certified companies out of the 49 worldwide. The labour force in the KPO sector in India mostly comprises graduates with excellent English language and IT skills. Specifically, the ITES industry in India attracts people who are more skilled and qualified than those in the existing parent location. Consequently, the offshore centers in India have been able to make dramatic improvements in process quality and productivity, as compared to that in the parent location.

5.2 Value-creation for Employees and Vendors

Another major chunk of the value-creation pie goes to the KPO vendors and the employees working on these high-end jobs.

5.2.1 Job Creation

The KPO industry presents a huge opportunity for India in terms of employment generation and wealth creation. The expected CAGR of 49.5 percent of the global KPO market by 2010 will lead to an increase in the number of jobs in the KPO industry from the current 25,000 to more than 250,000 by 2010⁹.

5.2.2 Salary Increase

The revenue per unit is more in the KPO industry than in BPO. The billing rate offered lies between USD 18-24 per hour, which is considerably higher than in BPO, where it is approximately USD 11 per hour¹⁰. This is reflected in the higher average salary in the KPO industry, compared to BPO. According to an analysis conducted by Evalueserve, it is approximately USD 8,800 per annum in KPO, and USD 6,000 per annum in BPO.

⁸ Source: Nasscom-QAI report on "[Key operational excellence challenges in ITES-BPO](#)"

⁹ Source: [NASSCOM](#)

¹⁰ Source: Evalueserve analysis



5.3

5.4 Value-creation for Allied Sectors

There are various allied sectors in an economy that provide support services to the KPO industry. They also benefit and share a portion of the value created by the KPO industry.

The contribution of the IT-ITES industry to India's GDP will increase from 3.6 percent in 2003 to 8 percent in 2009

The KPO boom also has an indirect positive impact on the economy of the offshore location. The Indian IT and ITES industries are expected to be the major drivers of India's economic growth, contributing about 8 percent to GDP by 2009, as against the current 3.6 percent. The high income and associated investment in KPO and other ITES sectors generate considerable multiplier effects through corporate and household expenditure into construction, retailing, business and government services. According to reports, such multiplier effects could result in two to three jobs being created in other sectors for every job created in the offshore financial (KPO) sector directly¹¹.

¹¹ Source: Report on ["Global competition in offshore business services: prospects for developing countries"](#) by Mr. Rajiv Biswas

6 Imperatives for the Future

Cost arbitrage has been the major driving factor of outsourcing work to offshore vendors. Besides the cost difference, factors, such as quality improvement and high productivity will be some of the major reasons for offshoring in future. Certain factors, such as breadth of coverage, domain expertise, location advantage, sales and marketing capabilities, compliance with regulatory standards and risk management will help the KPO vendors to differentiate themselves and sustain a competitive advantage in future. These factors will determine the leaders and laggards in the long run.

6.1 Quality

The increasing expertise and maturity of offshore vendors is fuelling their shift from low-end BPO to high-end KPO services. Quality is the single most important factor responsible for the growth in the BPO sector. A gradual shift to KPO services is attributed to sustained high-quality services by some major vendors in the country.

The key to success for companies in the long-term is hiring people with the right talent and skill sets, and nurturing them internally through extensive training modules rather than poaching from other companies in the sector.

In fact, India's edge in providing KPO services at sustained high-quality levels will help it stay way ahead of other low-cost outsourcing destinations in the global outsourcing market.

6.2 Breadth of Coverage

The outsourcing sector in India covers a broad range of services. This ranges from back-office operations to services that involve problem solving and decision making. The services offered are spread across a wide spectrum of skills and sectors. Currently, the largest segment of the outsourced work includes services, such as human resources, finance and accounting and payment services. Other services offered are supply-chain management services and sales and marketing related services.

Certain KPO vendors, who have turned into integrated service providers, have multi-lingual capabilities which enable them to serve their clients worldwide without having any physical presence in those countries. For example, let us suppose that an offshore telecom service provider wants to conduct a survey on the usage of voice mail in ten countries. In order to conduct this survey, knowledge of ten different languages will be required. Now, instead of going to a local solution provider in each of the countries, the telecom company can outsource this activity to an integrated KPO vendor who has all the required resources

6.3 Domain Expertise

BPO services focus on executing standardised routine processes, while KPO involves processes that demand advanced information search, analytical interpretation and technical skills as well as some judgement and decision making. Companies in the KPO space need to make the transition from offering services that require low human capital quality and low IT enablement to those that require a high degree of human capital and IT enablement. According to industry analysts, companies that have a strong



pedigree, domain expertise and a proactive solution orientation will be successful in future.

6.4 Captive vs. Non-captive

The BPO industry in India started off with a few large global corporates setting up facilities for their global back-office processing requirement. These were known as captive centres. Given the high growth potential of the BPO industry, a number of Indian entrepreneurs have set up BPO operations in the last 4-5 years. Another set of start-ups in the Indian BPO market include those promoted by corporate groups. Over the last 2-3 years, a number of Indian business houses, such as the Hero Group, Reliance, Hiranandani and Godrej have either entered or announced plans to enter the industry.

The profits from the non-captive units, either by entrepreneurs or by business houses adds to the value accrued to the country, hence creating additional value for the Indian economy. On the other hand the profits from the captive units are part of the parent company located overseas; therefore an increase in the number of third-party vendors is a positive sign for the future of Indian economy. A non-captive vendor also enjoys a comparative advantage since it is able to cater to the diverse needs of an organisation as against a captive vendor, who has limited service offerings catering mainly to its parent unit.

6.5 Sales and Marketing Capabilities

Certain Indian BPO/KPO companies have sales and marketing capabilities spread across the globe. While the operations are in India where all the analysts along with HR, IT and finance departments are located, client servicing is carried out at the client's site itself. The client executives are the ones getting work for their analysts in offshore locations. They also act as points of contact for the clients in case of any issue pertaining to escalation. The client executives are people with significant industry experience who capitalise on their contacts in the industry to outsource work to offshore locations. KPO vendors with a global footprint would gain significant competitive advantage.

6.6 Regulatory Standards

In BPO, service providers have to abide by the regulations that their clients follow. The technology component of BPO increases as the industry moves from low-end services, such as customer support and medical transcription to high-end services, such as research, analytics, medical insurance processing and media services.

In terms of global certifications and standards, Indian BPOs are at par with the rest of the world. Certain Indian BPO companies are certified as BS 7799 and ISO 17799. Some of the main certifying authorities or agencies certifying the Indian BPO organisations are BSI (British Standards Institute), DNV (Det Norske Veritas), STQC (Standardisation Testing Quality Certification), KPMG and Ernst and Young. Even after they get certified, the Indian BPO companies have to still catch up with the regulations front. The principal regulations that might affect Indian BPOs are:

- Sarbanes-Oxley Act
- HIPAA (Healthcare Insurance Portability and Accountability Act)
- GLBA (Gramm Leach Bliley Act)
- UK Data Protection Act



- FDCPA (Fair Debt Collection Practices Act)
- US-EU Safe Harbour Agreement

6.7 Handling Risk

A lot of risk is transferred by the client when work is outsourced to an offshore vendor. Contracting with a third-party vendor reduces the business risk in the following ways:

- Preformed teams with proven processes or procedures are used
- Large upfront fixed costs are transferred to incremental variable costs
- Management teams with local experience and the expertise to manage and scale activities are used

The clients, however, are still exposed to certain risks like compliance, regulatory and lawsuit risks, and it would not be long when Indian BPO/KPO firms will have to gear up for these issues as well.



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