MODULE 4:
BUSINESS /KNOWLEDGE PROCESS OUTSOURCING

Structure

Learning objective-

On reading this module, the student will
(1) Understand about BPO/KPO industry.
(2) Learn about BPO/KPO models.

Introduction
Outsourcing is not a new phenomenon, but since World War II and especially in 1990s and today outsourcing has been increasing at a very fast pace. Outsourcing is now increasingly used as a competitive weapon in today's global economy.

4.1 The Concept of Outsourcing:

Outsourcing means that an activity done in-house is assigned or contracted to an outsider vendor on a recurring basis. When the work is assigned outside the firm's home country, it is called off shoring.

4.2 Why Outsourcing? (Goals of Outsourcing or Advantages):
Ian Benn and Jill Pearce list the following key reasons as the potential goals:
1. Focus on Core Competence (It improves companies' core business area. Companies can concentrate more on core areas and peripheral activities can be outsourced.)
2. Quality of Service (Outsourcing firm like Daksh can better handle services, email and telephone calls than you do it.)

3. Recruiting the Best (ICICI OneSource trains its people so you get the best people, and Wipro can offer engineers with certified skills.)
4. Better Technology (An outsourcing vendor invests in systems, networks and other technical services which can be spread over all the clients.)
5. Flexibility (If the work is there takes help of outsourcing vendor, and if not, sends them back. It is not possible to do with in-house information.)
6. Cost Advantage (One, company can avail best of technologies at lowest rates and two, the outsourcing companies offer the best talented and skilled people at lower rates.)

4.3 Limitations of Outsourcing:

Despite the explicit advantages of outsourcing, it is still a risky proposition. The limitations are:

Process of vendor search and contracting involves money, time and effort.

Transitioning to the vendor means incurring the cost till the transition is not complete.

Managing the Effort involves monitoring to ensure that vendors fulfil their obligations, negotiation and bargaining with them. These costs are estimated around 8% of the yearly contract value.

Transitioning after outsourcing. If a company wants to switch over to another vendor the managers are most reluctant. Switching over means cost of finding a new vendor, defining a new contract, transitioning resources.

National sentiments against outsourcing. Politicians oppose outsourcing, as in the US, out of expediency. Governments oppose because of retrenchment of employees, and lower tax collections. Those, whose jobs become redundant, curse outsourcing for all their troubles.

4.4 Reasons of growing Outsourcing (Drivers of outsourcing):

1. Government policy and political Stimulation (Government policy throughout the developed world is supportive of business and their need for skilled resources and freedom to trade. These countries are achieving ‘managed migration’ through off shoring).
2. Globalisation and the Knowledge Economy (Due to globalisation greater transparency and global connectivity are maintained for business services and products; Global supplier rather than local supplier is always more attractive; and because of competition better pricing is ensured.)
3. Technology (Technology, like global telecommunication, has exploded the importance of outsourcing. Information can flow throughout the world; information about people, products and services can be tracked; your service can be compared with other firms throughout the world.)
4. Corporate Strategy (To concentrate on core competence and divest the parts of their organisation that do not increase competitive advantage)

4.5 Types of outsourcing:

1. Offshore Outsourcing (getting service in other country, like India by a US Company)
2. Business Process Outsourcing (outsourcing of entire process like tax management, insurance claims, human resources and contact centres.
3. Value-added Outsourcing (Two partners with complementary strengths combine to achieve what is impossible alone)
4. Equity Holding (Client and supplier buying each other's equity or both creating a new entity)
5. Multi-sourcing (One client uses a single contract for several suppliers)
6. Co-Sourcing (one outsourcer to take the entire system rather than taking just a process away from the client)
7. Spin-offs (A separate organization is borne of its parent focussed on a particular service)

4.6 Service:

Concept of Service:

Due to their diversity, services have traditionally been difficult to define. Services are deeds, actions, efforts, or performances whereas goods are physical objects, devices, or things. But product includes both goods and services.

A product is a bundle of benefits that can include both goods and services in a variety of combination. Customers are buying good and service both when (s) he buys a pizza from Dominos – good: the pizza and service: 30 minute home delivery.

Basis	Goods	Service
Ownership	Customers obtain ownership	Derive value without obtaining permanent services
Intangible performance	Core benefit derived from owning a physical good.	Service performance basically intangible (an airline seat)
Customer involvement in production process	Not required	Actively involved either in creating himself (ATM) or cooperating (hair salon)

People as part of product	Customers do not rub shoulders with others	In high-contact services people rub shoulders with other customers (riding a metro train) &must be present (hospitals)
Controlled Conditions	Produced under controlled conditions	Difficult to standardise and control variability in both service inputs and outputs
Storage & time of consumption	Possible	Not possible
Evaluation	Relatively high in 'search attributes'	Hard to evaluate even after consumption (surgery & auto repairs)

The key distinction between goods and services lies in the fact that customers usually derive value from services without obtaining permanent ownership of any substantial tangible elements. Difference between goods and services is not always perfectly clear.

In reality, many services contain at least some goods elements, such as the menu selection at a restaurant, the bank statement from the local bank, or the written policy from an insurance company.

Pure goods are tangible dominant and pure services are intangible dominant. Defining one's business too narrowly means suffering from marketing myopia.

4.7 Characteristics of Services:

1. Services being perishable can't be stored (inventorised):

Nirula's can store its ice creams but not the experience. Spare capacity of providing an experience (pleasure) on Friday evening can't be stored for Sunday evening.

A Kingfisher flight in the morning going vacant during day time can't be repeated in the night, as when to fly is a decision of the customer. As such the production and marketing or consumption cannot be separated.

2. Service is time and place dependent:

A service has to be offered at the time customer wants. Customers use mobile phones during the day time and that is why the telecom service provider companies offer discounts for night time.

Similarly the place of use of service depends on the customer. Maruti Suzuki can have a factory at Gurgaon, but Nirula's can't afford to serve the" consumers from just one place like NOIDA. Service has to be provided where the customer wants it.

3. Production of services can't be separated from consumption:

An ENT specialist checks-up throat and the patient simultaneously consume it. An airline flies the aircraft and the customer crosses the distance.

4. Customers are part of production:
In haircutting, self-service restaurant, or coaching class, no service can be created unless the consumer is part and parcel of production of respective service. But in your car repairs, your presence is not required.

5. Lack of Standardisation:
No two services of the same kind — two lectures, two lunches, or two facials can be the same, because of variability inherent in services.

6. Service can't be touched like goods.

Why Study Services:
The criteria for development to begin with included agriculture, then it switched to industry and the latest trend is services. Following points show the role of services in a country's economy:

Tremendous Growth in Service-Sector Employment:
India is fifteenth in services output. Service industry employs 23% of the work force and is growing quickly, with a growth rate of 7.5% in 1991-2000, up from 4.5% in 1951-80.
Business services (information technology, information technology enabled services, business process outsourcing) are among the fastest growing sectors contributing to one third of the total output of services in 2000.

The growth in the IT sector is attributed to increased specialisation and availability of a large pool of low cost, highly skilled, educated and fluent English-speaking workers on the supply side and on the demand side, has increased demand from foreign consumers interested in India's service exports or those looking to outsource their operations. India's IT industry contributes significantly to its balance of payments.
The ITES-BPO sector has become a big employment generator especially amongst young college graduates. The number of professionals employed by IT and ITES sectors is estimated at around 1.3 million as on March 2006. Also, Indian IT-ITES is estimated to have helped create an additional 3 million job opportunities through indirect and induced employment.

The Economic Impact (service sector contributions) to GDP. The services sector has been at the forefront of the rapid growth of the Indian economy. It has the largest share in the GDP, accounting for 57% in 2010 up from 20% in 1950.
The services sector comprising financial and non-financial services attracted 21 per cent of the total FDI equity inflow into India worth US$ 2,987 million during April-January 2011, while telecommunications including radio paging, cellular mobile and basic telephone services attracted the second largest amount of FDI worth US$ 1,332 million during the same period.

Automobile industry was the third highest sector attracting FDI worth US$ 1,191 million followed by Housing and Real Estate sector which garnered US$ 1,048 million during the financial year April-January 2011.

The Impact of Deregulation:

Economic Survey 2010-11 has lauded the role of services sector as the potential growth engine. The success in this sector is regarded as “India’s services revolution”. A striking feature of India’s growth performance over the past two decades has been the strength of its services sector. It found that the average services grew more slowly than industry between 1951 and 1990. Growth of services picked up thereafter.

Thus, service sector is very important not only from the national viewpoint, but from the business view point as well.

Growing Importance (Drivers to Services Growth, Composition and Growing Competition):

1. Government policies (Changes in regulation, privatisation. New customer, employees and ecological environment)
2. Social Changes (Rising consumer expectations, more affluence, more people short of time, increased desire to buy experiences, rising ownership of customers and mobile phones, and immigration)
3. Business trends (Manufacturers adding value through service and sell service, more strategic alliances, marketing emphasis by nonprofits organisations, quality movement, emphasis on productivity and cost savings, growth of franchising, and innovative hiring practices)
4. Advances in informational technology (convergence of IT and telecom technologies; Greater bandwidth; miniaturisation and nano technology; wireless networking; faster, more powerful software; digitalisation of text, graphics audio and video; and growth of internet).
5. Globalisation (more multinational firms; increased international travel, and cross-border mergers and acquisitions).

4.8 Types of Services:

1. Tangible (food services or dry cleaning) and Intangible (teaching or telephoning)
2. Direct recipient (hair cutting) and indirect recipient (dry cleaning)
3. Place of service (customer to go at the service site: hair salon, electric motor repairs or ATM; and service at the doorstep of customer: Eureka water purifiers),
4. Customised (different insurance policies to different people) and standardised (eye examination)
5. Formal relation with customers (bank or Municipal Corporation’s tax calculation) and informal relation with customers (customer loyalty programmes of airlines)
6. -Demand and supply in balance and fluctuating (on some entrance exam day canteen asked to serve more lunches).

4.9 E-Commerce:

Concept of E-Commerce:

Electronic commerce or e-commerce refers to a wide range of online business activities for exchanging products and services. It also pertains to “any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact.”

Simply speaking E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organizations and individuals.

Different Types of e-commerce?

(a) Business-to-Business (B2B);
(b) Business-to-Consumer (B2C);
(c) Business-to-Government (B2G);
(d) Consumer-to-Consumer (C2C); and
(e) Mobile Commerce (m-commerce).

B2B e-commerce:

B2B e-commerce is simply defined as e-commerce between companies. This is the type of e- commerce that deals with relationships between and among businesses. About 80% of e-commerce is of this type, and most experts predict that B2B ecommerce will continue to grow faster than the B2C segment.

The B2B market has two primary components: e-frastructure and e-markets. E-frastructure is the architecture of B2B, primarily consisting of the following:

(a) Logistics – transportation, warehousing and distribution (e.g., Procter and Gamble);
(b) Application service providers – deployment, hosting and management of packaged software from a central facility (e.g., Oracle and Link share);
(c) Outsourcing of functions in the process of e-commerce, such as Web-hosting, Security, and customer care solutions (e.g., outsourcing providers such as e-Share, Net Sales, XL Enterprises and Universal Access);
(d) Auction solutions software for the operation and maintenance of real-time auctions in the Internet (e.g., Moai Technologies and Open Site Technologies);
(e) Content management software for the facilitation of Web site content management and delivery (e.g., Interwoven and Procure Net); and
(f) Web-based commerce enablers (e.g., Commerce One, a browser-based, XML enabled purchasing automation software).

E-markets are simply defined as Web sites where buyers and sellers interact with each other and conduct transactions.

The more common B2B examples and best practice models are IBM, Hewlett Packard (HP), Cisco and Dell. Cisco, for instance, receives over 90% of its product orders over the Internet.

Most B2B applications are in the areas of supplier management (especially purchase order processing), inventory management (i.e., managing order-ship-bill cycles), distribution management (especially in the transmission of shipping documents), channel management (i.e., information dissemination on changes in operational conditions), and payment management (e.g., electronic payment systems or EPS).

E-Marketer projects an increase in the share of B2B e-commerce in total global ecommerce from 79.2% in 2000 to 87% in 2004 and a consequent decrease in the share of E-markets are simply defined as Web sites where buyers and sellers interact with each other and conduct transactions.

B2C e-commerce:

It involves customers gathering information; purchasing physical goods (i.e., tangibles such as books or consumer products) or information goods (or goods of electronic material or digitized content, such as software, or e-books); and, for information goods, receiving products over an electronic network.

It is the second largest and the earliest form of e-commerce. Its origins can be traced to online retailing (or e-tailing).13 Thus, the more common B2C business models are the online retailing companies such as Amazon.com, Drugstore.com, Beyond.com, Barnes and Noble and Toys Rus. Other B2C examples involving information goods are E-Trade and Travelocity.

The more common applications of this type of e-commerce are in the areas of purchasing products and information, and personal finance management, which relates to the management of personal investments and finances with the use of online banking tools.

B2G e-commerce:

It can be defined as commerce between companies and the public sector. It refers to the use of the Internet for public procurement, licensing procedures, and other government-related operations.

This kind of e-commerce has two features: first, the public sector assumes a pilot/leading role in establishing e-commerce; and second, it is assumed that the public sector has the greatest need for making its procurement system more effective.

Web-based buying policies increase the transparency of the procurement process (and reduce the risk of irregularities). To date, however, the size of the B2G ecommerce market as a component of total e-commerce is insignificant, as government e-procurement systems remain undeveloped.

C2C e-commerce:

Consumer-to-consumer e-commerce is simply commerce between private individuals or consumers. This type of e-commerce is characterized by the growth of electronic marketplaces and online auctions, particularly in vertical industries where firms/businesses can bid for what they want from among multiple suppliers.16 it perhaps has the greatest potential for developing new markets. This type of e-commerce comes in at least three forms:

(a) Auctions facilitated at a portal, such as eBay, which allows online real-time bidding on items being sold in the Web;

(b) Peer-to-peer systems, such as the Napster model (a protocol for sharing files between users used by chat forums similar to IRC) and other file exchange and later money exchange models; and

(c) Classified ads at portal sites such as Excite Classifieds and e-Wanted (an interactive, online marketplace where buyers and sellers can negotiate and which features “Buyer Leads & Want Ads”).

(d) Consumer-to-business (C2B) transactions involve reverse auctions, which empowers consumers to drive transactions. A concrete example of this when competing airlines give a traveller best travel and ticket offers in response to the traveller’s post that she wants to fly from New Delhi to Mumbai.

There is little information on the relative size of global C2C e-commerce. However, C2C figures of popular C2C sites such as eBay and Napster indicate that this market is quite large. These sites produce millions of dollars in sales every day.

4.10 What is m-commerce?

M-commerce (mobile commerce) is the buying and selling of goods and services through wireless technology-i.e., handheld devices such as cellular telephones and personal digital assistants (PDAs). Japan is seen as a global leader in m-commerce.
As content delivery over wireless devices becomes faster, more secure, and scalable, some believe that m-commerce will surpass wire line e-commerce as the method of choice for digital commerce transactions. This may well be true for the Asia-Pacific where there are more mobile phone users than there are Internet users. Industries affected by m-commerce include:

(a) Financial services:
Including mobile banking (when customers use their handheld devices to access their accounts and pay their bills), as well as brokerage services (in which stock quotes can be displayed and trading conducted from the same handheld device);

(b) Telecommunications:
In which service changes, bill payment and account reviews can all be conducted from the same handheld device;

(c) Service/retail:
As consumers are given he ability to place and pay for orders on-the-fly; and

(d) Information services:
Which include the delivery of entertainment, financial news, sports figures and traffic updates to a single mobile device. Forrester Research predicts US$3.4 billion sales closed using PDA and cell phones by 2005.

Factors fuelling e-commerce (What forces is driving e-commerce?)
There are at least three major forces fuelling e-commerce:
(a) Economic forces;
(b) Marketing and customer interaction forces; and
(c) Technology, particularly multimedia convergence.

Future of e-commerce:
Global e-commerce is expanding rapidly and several trillion dollars are being exchanged annually over the web. The global online population is also increasing substantially and by 2013 there will be 2.2 billion Internet users worldwide and Asia will be the biggest global growth engine.
Another interesting trend in global Internet usage is that almost 72.4 percent of these users are now non-English speaking [Internet World Stats, 2009]. So, besides English other languages like Chinese, Spanish, Japanese and French now have significant online usage.

By 2010 U.S. retail e-commerce will be about $182.5 billion. On the other hand, European B2C e-commerce was almost $234 billion by 2010. According to e-marketer estimates by 2010 the British market share will fall to 44.5% as France and Germany ramp up their online sales.

Asia will also see significant growth in B2C e-commerce with a 23.3 percent annual growth rate and eventually reaching almost $168.7 billion in 2011 [Grau, 2008b]. Japan and South Korea currently lead the B2C e-commerce sales in Asia but by 2011 they will be overtaken by China and India. From these numbers it is clear that e-commerce is now a truly global phenomenon. Thus web is increasingly becoming a diverse global marketplace with global business opportunities.

To take advantage of the full potential of global e-commerce, companies need to tap into global markets and consider expanding online not only in developed countries but also in the emerging economies of China, Brazil, India and others.

Companies may proactively exploit global e-business opportunities and take advantage of the full potential of e-commerce, or may adopt a defensive approach to new global competition threatening their business. Domestic businesses will increasingly feel pressure of global competition as e-business will offer companies a platform to compete on global basis.

4.11 Business Process Outsourcing (BPO)/KPO

Meaning of Business Process Outsourcing (BPO):

Business process outsourcing might be defined as follows:

Business process outsourcing means to engage the services of an external provider (i.e. the outsourcer) to manage and deliver services in respect of one or more business activities of non-core nature to the client (or the outsourced).

In an outsourcing agreement, there are two parties the client company or the outsourced which wants a business activity to be externally performed; and the vendor or the external provider or the outsourcer which manages and delivers the service to the client company.

Nature of Business Process Outsourcing (BPO):

Nature of business process outsourcing could be described, in terms of, the following points:

(i) The idea behind outsourcing is that of specialization i.e. a business enterprise must concentrate its attention only on its core-activities like manufacturing, marketing, etc.; and get non-core activities done through some external agency.

Some examples of non-core activities may be:

1. After sales service to customers
2. Managing accounts receivables (i.e. debtors) (e.g., collection of debts)
3. Maintaining books of accounts.

In fact, outsourcing has its origin in the Core Competency Theory, propounded by Sh. C.K. Prahlad famous management consultant; who advised business enterprises to identify their core competencies and focus only on them; and getting everything else done through outside agencies.

(ii) Outsourcing is routine business activities got done through external providers on a regular basis.

Need for/Advantages of Business Process Outsourcing:
The need for business process outsourcing also refers to its advantages.
We can describe need for outsourcing or its advantages, in terms of the following points:

(i) Concentration on Core Competency Areas Leading to Specialization:
Business process outsourcing enables a business enterprise to concentrate its attention on core competency areas like manufacturing, marketing, capital budgeting etc.; and thus obtain advantages of specialized performance in those areas. As a result, organisational functioning is at its optimum performance level.

(ii) Advantages of the Expertise of Outsourcer:
The service provider is an expert his field. Moreover, he keeps in touch with the latest development in his field of expertise. Therefore, through outsourcing, a business enterprise can take full advantage of the specialized services of the outsourcer.

(iii) Better Accountability:
The outsourcer provides services at a fee. Therefore, he is more responsible for the quality of services provided than the internal staff of the client company.

(iv) Cheaper Services:
Outsourcers operate on a large scale. Therefore, the cost of services provided by them is much less than the cost the client company would have incurred had it performed the same services in the organisation itself.

(v) Less Labour Costs and Labor Problems:
Outsourcing of services reduces the need for staff in the client company. Hence, the labor costs of the company are reduced. Further with less staff; labour problems are also minimized.

(vi) Advantage of Consultancy from the Outsourcer:
The outsourcer often acts as a consultant for the particular function performed by it and may advise the client company (or the outsourced) on better ways of managing that function.

(vii) Avoiding Fixed Investment in Services:
If the client company plans to perform certain services within the organisation; there is a need for huge fixed investment in facilities required for performing those services. In fact, there is a problem of idle facilities; when they are not in use leading to unnecessary expenditure of fixed costs on the maintenance of those facilities.

(viii) Boost to Economic Development:
Business process outsourcing enables both – the client company and the external provider to perform according to the best of their abilities. This type of performance, all through the economy, is a boost to the economic development of the economy.

Need for/Advantages of Outsourcing - at a glance

1. Concentration on core competency areas leading to specialization
2. Advantages of the expertise of outsourcer
3. Better accountability
4. Cheaper services
5. Less labour costs and labour problems
6. Advantage of consultancy from the outsourcer
7. Avoiding fixed investment in services
8. Boost to economic development

Types of Outsourced Services:

Below is given a description of some services which are popularly outsourced now-a-days:

(a) Financial Services:

Business enterprises often need the services of specialists in various aspects of business finance. Financial services providers maintain a pool of experts in legal, financial and managerial aspects of business finance.

Some examples of financial services which are outsourced are:

(i) When a company needs to raise finances by the issue of shares, and debentures; a number of legal and procedural formalities have to be carried out. Investment banks or issuing houses on the stock exchange specialize in the issue of shares and debentures .

(ii) An important type of financial service outsourced is debt-collection activity. A factoring agency (i.e. debt collection agency) performs the job of collecting money from debtors for some commission. Such factoring agency even makes advance money available to the client company. As such, the client company need not invest much capital in credit sales.

(iii) A new trend in financial services outsourced is that companies even entrust the task of maintaining their accounts to specialized firms.

(b) Advertising Services:

In the present-day-times, many companies outsource advertising services. They hand over the task of designing advertisements, selecting media of advertising and arranging time and space for advertising to specialized advertising agencies. Advertising agencies also make audio-visual films for display through various media like TV, cinema, radio, Internet etc.

Companies such as Coca- Cola, Pepsi, Hindustan Levers and other have agreements with advertising agencies. These agencies undertake to provide advertising services in return for a fee.

(c) Courier Services:

These services are very popular now-a-days; not only with businessmen but also with the common man of society. Courier services are like postal services, but provided by private operators. These services are cheaper, faster and safer as compared with the Government run postal services. Through these services, we can send letters, documents, parcels, books, light goods and samples of products to various destinations.

Now-a-days, courier services are available on desk-to-desk basis i.e. the courier company or firm picks up things from the sender and delivers these to the recipient. The courier company gives a receipt in token of having received the mail etc.; and after sometimes hands over the receipt of the mail etc. having been delivered to the addressee. For their services, courier companies charge some commission. (d) Customer Support Services:

Customer support services particularly mean two types of services to customers:

(i) Home delivery of goods
(ii) After-sales services.

Customer support services are needed in respect of durable goods used by industrial enterprises and final consumers.

Earlier, companies would provide these services themselves. However, with the scale of production and marketing increasing considerably; manufacturing companies find it difficult to cope with customer support services. Outside agencies now-a-days provide customer support services. They undertake to deliver goods at the house of consumers and also provide after sales services.

Companies require a high level of performance from the providers of customer support services; as the reputation of the company depends on the quality of these services provided by outside agencies. In any case, these outside agencies must ensure complete consumer satisfaction.

Business Process Outsourcing in India:

BPO is progressing at a fast pace in India. The first companies which experimented with India as an outsourcing base were multinationals; which started company owned back office operations and call centres. India has emerged as a major hub for back office operations.

Along with MNCs, an increasing number of Indian companies have entered BPO operations, viz. Infosys, Wipro, Satyam, HCL technologies, Tracanail, Daksh, Epicentre, Spectramind etc. India is on the threshold of being the global leader in BPO, pushing back its rivals China, Brazil and Russia. (The Statesman, December 22, 2004)

Major areas of outsourced services in India are HR (Human Resource), finance, IT (Information technology), logistics, sales and marketing. Call centres and IT enabled services have reached the stage of development.

The Government of India has Introduced Many Steps to Accelerate the Growth of the IT Enabled Outsourcing Market, like the following:

(i) Removal of procedural bottlenecks hampering the growth of India calls Centre industry.
(ii) Total tax exemptions on the export of IT enabled outsourcing services.
(iii) FDI (Foreign Direct Investment) up-to 100% of the equity in BPO companies.
(iv) Duty free import of capital goods for BPO companies.

According to NASSCOM-Mc Kinsey Report, 2002 (National Association of Software and Service Companies i.e. NASSCOM), BPO sector is likely to contribute up-to 3% to India's Gross Domestic Product (GDP); providing employment to 1.1 million persons by 2008.
A British author Mark Kobayashi Hillaryin his latest book: 'Outsourcing to India: An Offshore Advantage', has stated that there has been a phenomenal annual growth of over 50% in India's BPO industry.

4.12 Knowledge Process Outsourcing (KPO)

Knowledge process outsourcing (KPO) is the outsourcing of core, information-related business activities. KPO involves outsourcing work to individuals that typically have advanced degrees and expertise in a specialized area.
The information-related work can be carried out by workers in a different company or by a subsidiary of the same organization. The subsidiary may be in the same country or in an offshore location to save costs or other resources.
Knowledge process outsourcing (KPO) is the allocation of relatively high-level tasks, to an outside organization or a different group usually in a different geographic location.
KPO is different from business process outsourcing (BPO), which is the outsourcing of work to a third party to save money. Although KPO is a subset of BPO, KPO involves more specialized, analytical, and knowledge-based work.
Companies that engage in KPO look to obtain highly educated and skilled individuals without having the cost of training and developing those workers. Through KPO, a company can quickly add experts in specific fields to boost competitiveness and increase earnings.

Types of KPO Services

- Financial consultants
  - Research and development
  - Business operations
  - Technical analysis
  - Investments
- Legal
- Medical
- Data analysis and interpretation

[Important: Company's look to knowledge process outsourcing to simultaneously obtain a highly-skilled workforce at a lower cost with the goal of boosting competitiveness and increasing profits.]

4.13 Reasons for Knowledge Process Outsourcing

Companies utilize KPO when they are looking for specialized knowledge and expertise and when they have a shortage of skilled professionals. However, companies that engage in KPO offshore are typically doing so to reduce costs by hiring skilled workers earning lower wages in another location. Ideally, companies look to KPO to simultaneously obtain a highly-skilled workforce at a lower cost.

For example, a manufacturer might use raw materials, add value to those materials through various processes, and then sell the result as a final product. The company might look to KPO to determine how to improve efficiency in their production process so that they can deliver maximum value for the lowest possible total cost. The result of KPO might also help the company create a competitive advantage.

Key Takeaways

- Knowledge process outsourcing (KPO) is the outsourcing of core, information-related business activities to individuals that typically have advanced degrees and expertise in a specialized area.
- Companies utilize KPO when they are looking for specialized knowledge and expertise and when they have a shortage of skilled professionals.
- Ideally, companies look to KPO to simultaneously obtain a highly-skilled workforce at a lower cost.

Advantages and Disadvantages of Knowledge Process Outsourcing

KPO can help companies reduce the costs of their operations or producing their products and services. KPO also fills the gap or need for skilled employees in a particular field. KPO also frees up existing staff including management to do other work boosting efficiency and productivity.

The flexibility that comes with KPO allows a company to increase or reduce staff easily. For example, if economic conditions worsen, a company can easily reduce its KPO staff to cut costs. Conversely, a company can quickly hire specialized staff to boost profits or revenue. KPO helps a company to be more nimble and adapt to the changes in its industry and competitive landscape.

However, disadvantages exist with KPO. Privacy and security can be compromised if classified or proprietary information is lost, copied, or brought to a competitor. Companies have less control over the hiring process of outsourced workers. As a result, a company might not be able to ensure the character of their outsourced employees or the quality of their work.

Implementing KPO can be time and resource-intensive to establish a successful operation. Also, communication can be a concern and a challenge, due to legal, language, and cultural barriers. Another disadvantage might be that existing employees might feel threatened by the hiring of outsourced workers and feel their jobs are at risk.

4.14 BPO/KPO Models

The BPO industry features five business models:

1. **The Global Delivery Model -** Also called Blended outsourcing, it combines onsite, offsite, onshore, and offshore resources. Large multinational outsourcing service providers offer this model where work can be "bestshored" or "multishored" to the location where optimal cost and labor efficiencies are met to predetermined performance standards. In case of a disaster in a particular region, work can be immediately transferred to another region to ensure on-going, interruption-free business processes.

2. **The Hybrid Model or Dual-shore Model** Leverages onsite-offshore efficiencies to delivers results to clients at reduced costs. Clients are involved in the process as the Global team of the offshore vendor works onsite alongside the client's team to perform around 20% of the work while the Local team executes 80% of the work offshore to leverage the cost, labor and time-zone advantages of outsourcing.

3. **The Offshore Multi-sourcing Model or Hub-and-spoke Model** Uses multiple offshore suppliers to offset the risk of a single monopoly supplier. Users of this model typically have their own offshore operations, plus three or more partner outsourcing vendors with whom they collaborate. The partners get first-hand training on how the outsourcing company operates its hub center, and then apply their learning at the spoke centers.

4. **The Build-operate-transfer or BOT Model** The client partners with an offshore company to set up and operate a foreign outsourcing subsidiary with the option to transfer ownership back to the client company after a specified time period. The risks of setting up an outsourcing subsidiary in a foreign country are completely borne by the partner company which takes care of the costs and ownership of the new venture until such time as the client chooses to take it over.

5. **The Global Shared Services Model** Global shared services centers, also called offshore insourcing or captive centers create huge service enters from the company's internal service operations resources. They also have assured markets for their services. These centers can be run as independent businesses and have the advantages of a similar corporate culture, with less of the control issues that third-party BPOs face.

4.15 Types of Vendors

1. Call Center Outsourcing
   Typically, Call Center Services include -
   - Inbound call center services – These typically include answering services that are available 24X7. Call center agents can also be trained to up-sell and cross sell services, take orders, and provide information on the benefits and features of products/services
   - Outbound call center services – These include services like telemarketing services, lead generation services, and market intelligence services
   - Technical helpdesk services – This includes technical after-sales support for products and services

2. Knowledge Process Outsourcing (KPO)
   A KPO typically provides domain-based processes and employs advanced analytical skills and business expertise, rather than just process expertise. Some research services include -

- Market research and analysis – These services help the business extract useful information that reveals current trends and provides inputs for decision-making.

- Web-based market research – These services help collect information from different websites. As compared to primary research where data is directly collected from respondents, data is collected from secondary sources like government publications and newsgroups

3. Data Entry Outsourcing
   All organizations, whether big or small, have data entry requirements. Data entry outsourcing can be divided into -
   - Online data entry – These includes services such as compilation of data from websites and e-books, updating online catalogs, and creation of databases
   - Offline data entry – These include services such as offline data capture, fillings of forms, forms processing, data entry from one format/version to another, MS Word document data entry, etc

4. IT Services Outsourcing
   IT outsourcing typically includes outsourcing of software development. This may take the form of end-to-end outsourcing where all activities related to design, development, and testing are outsourced. In other cases, only a part or portion of the overall system is outsourced for development. This is in cases where the client does not have the requisite skills or technology for the development work.

5. Healthcare BPO Outsourcing
   Medical outsourcing includes a diverse range of HIPAA compliant services. These include -
   - Medical transcription services – These include services to transcribe information from a variety of audio sources and file formats such as MP3, MPG, MOV, DSS, WMA, etc
   - Medical coding and billing services – These services are delivered using popular billing software like Medic and Lytec
   - Teleradiology services - These services provide 24X7 access to qualified radiologists

6. Financial Services Outsourcing
   Accounts outsourcing services include:
   - Accounting services – These include preparation of financial statements for the statutory annual audit, cash forecasting services, and payroll services
   - Bookkeeping services – These include preparation and maintenance of both day-to-day books as well as monthly and quarterly accounts. It also includes preparations of different kinds of reports like sales reports
   - Financial analysis services – These include analysis of financial information such as financial statements, portfolio structures, and offer document

7. Engineering Services Outsourcing

These include a range of mechanical, civil, structural, and architectural services:
- Computer aided design (CAD) services to develop prototypes
- 2D drafting services
- Conversion of paper drawings into a digitized format
- Design and analysis for residential and industrial buildings
- Architectural visualization services (3D rendering or 3D animations)
- Services for evaluation and strengthening of deteriorating structures

Offshore BPO/KPO Evolution

Indian became a prominent destination for outsourcing in the services sector in the 1990s. Outsourcing to India started with the IT industry, which has responded to the changing market requirements by increasing the scale of operations and capability to handle complexity. The Indian software industry, according to Kris Gopalakrishnan, COO, Infosys Technologies Limited, has gone through the following four stages of development:

1970s to early 1990s: There was a shortage of skills and cost was the prime driver for outsourcing to India. Companies focused on expanding their skill sets during this period.

1994 to 1998: This was the most crucial time for IT outsourcing in India. The post liberalization reforms helped already existing companies speed up expansion. New companies also got support in the form of incentives from the government. The important tasks outsourced to India during this period were medium and large application projects on legacy migration and enterprise wide IT and problems related to Y2K syndrome. Companies focused on acquiring diverse skills and execution capabilities, along with achieving client delight trough productive and quality delivery of projects.

1999 to 2001: While projects related to Y2K syndrome were outsourced on a large scale to India, companies started acquiring additional competence especially in enterprise resource planning and customer relationship management during this stage. The industry gave importance to a variety of business aspects such as achieve excellence in quality of output delivered, making investments in R&D, ensuring business continuity and financial stability, gaining world-class project management capabilities, expanding services to IT consulting by gaining domain skills and developing infrastructure for further growth.

2001 to present: The industry now caters to large application development and maintenance needs of corporate across the world. Indian companies chalk out IT strategies for large corporations, and focus on providing end-to-end solutions. Indian companies are now in the process of aggressively gaining expertise for carrying out high end work such as R&D, architecture and business integration.

BPO in India has grown rapidly as compared to software services as the advantages offered by the country (low cost and abundant talent pool) were well known and tested in IT outsourcing. Most of the infrastructure required was already in place and companies needed to set the processes right to get BPO going in India. According to Mohanbir Sawhney, Professor, Kellogg School of Management, evolution of BPO in India has witnessed three prominent phases. These waves are:

Large multinational companies set up their captive centers in the country. American Express, GE and Citibank were among the pioneers which were followed by numerous banks, financial services, manufacturing companies, etc. These companies performed their back-office operations and customer services through these offshore captive centers.
The captive centers were followed by the establishment of start-up BPO operations by experienced professionals. Such companies were often backed by venture capital.
IT majors such as IBM ventured into Indian BPO market to tap the opportunity. These companies had experience in managing offshore IT operations which helped them in gaining an easy entry into the BPO market.

Drivers of BPO

The main drivers of the BPO phenomenon are globalization, economics and geopolitics. To elucidate, ever since the global economy started getting more integrated and interconnected, there has been a concomitant movement towards opening up of the economies of the developing countries to greater interaction with the west. This "flattening of the world economy" has meant that the East was no longer ensconced in protectionist walls but threw open the doors of its economies to companies from the west.

Any developing country that had invested in infrastructure and education could reap the advantages of the opening up of the global economy. This was what happened in the case of the BPO sector where the presence of a large pool of English speaking graduates along with availability of broadband brought on by the huge investments made in the Telecom and Software sector during the dotcom boom were leveraged by companies to communicate and plug into the economies of the west.

The second driver of the BPO phenomenon is the economic aspect where the efficiencies brought about due to the economies of scale and the theory of comparative advantage which stated that countries benefit by exporting goods and services when they are cheaper to be made in the home country and benefit by importing goods and services from countries where they are cheap. This mutually beneficial trade between the west and east gave rise to the emergence of the software and the BPO sectors that capitalized on the wage differential and the advantage of low cost production to successfully harness the power of technology and communication.

The third driver of the BPO phenomenon is the geopolitical aspect where the countries in the West encouraged greater interaction and cooperation with the countries in the East as means of facilitating world trade and increasing globalization. The point here is that it made economic and political sense apart from greater international cooperation leading to gains to all countries to encourage the technology and BPO sectors. Further, the three drivers that we have discussed are intertwined and interlinked where each feeds on the other leading to greater synergies between them. Indeed, they have created conditions for the emergence of booming BPO sectors in Asia thanks to this "triple convergence".

Finally, the BPO phenomenon has also been driven by demographics as the populations in the West age and at the same time, the populations in the East are youthful leading to a comparative advantage in tapping the huge pool of skilled workers in countries like India. Hence, though the ongoing global economic recession has undermined some of the gains, the BPO sector is still thriving because of the confluence of these factors.

4.16 BPO/KPO Companies in India

1. Founded in 1997, ***Genpact***—the erstwhile-outsourcing wing of GE Capital—leads the pact. Having formed an independent entity in 2005, Genpact has a network in 13 countries of more than 30 operations centers, including leading enterprises such as Nissan, Wachovia, Hyatt and GE. It offers a wide range of services including finance, IT infrastructure, supply chain management and analytics and hence is guaranteed to stay at the top of the list for years to come. With a workforce of more than 37,000 employees, Genpact's revenue for the year 2008 stood at $1040 million.

2. ***Evalueserve***, which was set up in 2000, was the pioneer of the "KPO" concept in India. It provides excellent Knowledge Processing Outsourcing services to its clients, which include insurance companies, private equity firms, investment banks, retail and commercial banks, law firms, among others.
   Evalueserve's global research centers are situated in India, China, Romania and Chile. This KPO's aim is to maximize value delivered to clients while minimizing the cost. Over the past 8 years, Evalueserve has witnessed successful organizational growth across the world as well as the doubling of its revenue each year.

3. Internationally recognized as a leading global provider of market research solutions, ***Ugam Solutions*** offers end-to-end services across the survey research value chain. Over 1000 knowledge experts are employed in the company's established offices in India, London, USA, and Coimbatore.
   Among its multifarious services, Ugam offers advanced analytics, report writing, survey programming, project management and international online and telephone data collection. Since its inception in 2001, the company has been consistently delivering tremendous value and cost benefits to its clients.

4. Principally distinguished by its deep domain expertise and end-to-end service offerings, ***WNS Global Services*** occupies the second place in this list. Based in Mumbai, Warburg Pincus is its main investor firm. WNS boasts of 215 plus global clients. Established in 1996, this Nasdaq-listed company has been serving numerous industries such as healthcare, manufacturing, retail, distribution, insurance and travel. At present, WNS has more than 21,000

persons working for it and has clocked revenues of about $539 million as of 2008.

5. Established in 2000, ***24/7 Customer*** is the first outsourcing company to offer integrated "Customer Lifecycle Management" (CLM) services to its clients.
   Among the many accolades proffered on 24/7, some of the notable ones include the "CCF award for Best Non-European Call Centre" (2009 and 2007) and a ranking in the "Top 5 Hot Offshore Players by Business Week" (2006).
   With 7,500 employees providing services from 9 global delivery centers, this KPO is known to successfully serve over 1000 global clients. In order to address business challenges at every stage of the customer lifecycle, 24/7 Customer launched the 24/7 Innovation Labs, which represent the next generation of design thinking.

6. Firstsource was established in 2001 and was formerly known as ***ICICI OneSource***. Ranked among the top 10 ITES companies in 2007 (by Nasscom), it is a leading player in global business process management. It is commendable to note that Firstsource is the first pure play BPO company in the world to secure ISO 20000 and ISO 27001 certifications. It has numerous leading global clients to whom it offers BPO services spanning customer care, billing and collections, business research and analytics and customer acquisition. Among several notable clients, Firstsource boasts of a clientele subsuming FTSE 100 media companies, 3 of the 5 largest US banks, top 5 UK banks and 2 of the world's largest telecom companies.

7. Headquartered in New York (USA), ***EXL Service*** has been offering integrated outsourcing solutions since its inception in 1999. It was started by a young group of talented experienced professionals in Delaware and has come a long way since. EXL's global team of 9,000-odd knowledge professionals offer solutions for internal audit, compliance and accounting and financial reporting, across its service delivery centers in India. Among its many awards, EXL has been proffered the ISO 9001:2000 certification for excellence in operational performance and ISO 27001 and BS 7799 for information security.

8. ***Copal Partners*** was founded by Mr Rishi Khosla and Mr Joel Perlman in 2002. A KPO based in Gurgaon (India), Copal offers outsourced financial research and analytics services to reputed clientele like private equity funds and investment banks. Through the use of Information Security Management System, EXL is able to exercise information security and regulatory compliance. With over 1,000 employees worldwide, Copal Partners is regarded as one of the leading research and analytics providers in the international outsourcing scene.

9. A recipient of the Excellence in Outsourcing award from Frost & Sullivan,***Pangea3*** is world-renowned for its legal process outsourcing (LPO) services. It offers superior quality corporate, risk management, litigation and intellectual property services to a global clientele that includes Fortune 1000 corporations. Pangea3 is set apart by the fact that its employees comprise

dedicated and experienced US, UK and Indian attorneys, scientists, engineers and professionals who strive to provide valuable legal services from 7 offices across India and the USA.

10. One of the biggest players in its domain of outsourced publishing services, ***TechBooks*** follows an innovative offshore model which has attracted outsourcing tasks from big publishers across two continents. With its focused strategy of providing content solutions, TechBooks has managed to register impressive growths in the past few years. As opposed to other outsourcing company business models, TechBooks launched project management teams in the USA and the UK and maintained the backend office in India. Its main strategic business units include the educational-publishing group, the information-publishing group and the professional-publishing group.

Few More BPO Companies in India are as follows:

Alorica

- VistaSofft
- One World Direct
- IBM Daksh
- Firstsource Solutions
- TCS BPO
- Aditya Birla Minacs
- Plaxonic Technologies
- HCL BPO
- Convergys India

4.17 Summary

Reasons behind KPO include an increase in specialized knowledge and expertise,additional value creation, the potential for cost reductions, and a shortage of skilled labor.Regions which are particularly prominent in Knowledge Process Outsourcing include India, Sri Lanka, and Eastern Europe, especially Poland, Romania, and the Baltic States.
KPO is a continuation of Business process outsourcing, yet with rather more of business complexity. To be successful in Knowledge process outsourcing, a lot of guide is required from inter-organizational system.

4.18 Self-Assessment Questions

1.Explain Business process outsourcing
2. Why Outsourcing?
3. Types of outsourcing