



Knowledge Process Outsourcing – a new  
revolution

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Martin H Fisher once said, "Knowledge is a process of piling up facts; wisdom lies in their simplification". Over the last decade, frenzied competition has put businesses under enormous pressure forcing them to lower their operational costs in a market troubled by low margins, industry consolidation, and diminishing global barriers to trade. Knowledge has become a key strategic tool to compete.

But, with knowledge, there is a need to maintain equilibrium between the cost of managing and acquiring knowledge vis-à-vis the returns through that knowledge. The combination of greater pressure on expenses, improved communication, networking and highly skilled labor pools, low costs, and the increased appreciation for flexible business models, has led many businesses to consider knowledge outsourcing as a strategic growth tool.

**KPO – a little bit of history**

Knowledge Process Outsourcing (KPO) has evolved from the success of the Business Process Outsourcing (BPO) model. KPO as an idea was initiated in early 1987 when McKinsey set up a knowledge center in India. KPO saw true acceptance in the year 2000 when companies like GE, Frost & Sullivan, Gartner and Office Tiger established captive research and analytics, and third-party knowledge services from offshore facilities in India. The five years from 2000 to 2005 were the growth years for KPO during which niche service providers like Evalueserve, including large consulting and investment banks, established offshore knowledge centers

in India, making India a leading destination for KPO. According to Evalueserve, the Indian KPO sector is expected to notch up 71 percent of the global KPO share, with revenues of USD 12 billion, by 2010. It is expected that the Indian KPO market will 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.

**What is KPO after all? moving beyond the jargon...**

Knowledge Process Outsourcing refers to the outsourcing of high-end complex tasks and processes like market research, investment research, patent filing, legal and analytic services, sourcing and information management, amongst others. The graph below depicts the services that fall under KPO.

Among the fast-moving verticals within the KPO space, Data Search, and Integration & Management are expected to witness the fastest growth, with close to 50% CARG till 2010; and hit a USD 5 billion market globally. Market Research and Business Intelligence sectors will also witness close to 54% CAGR

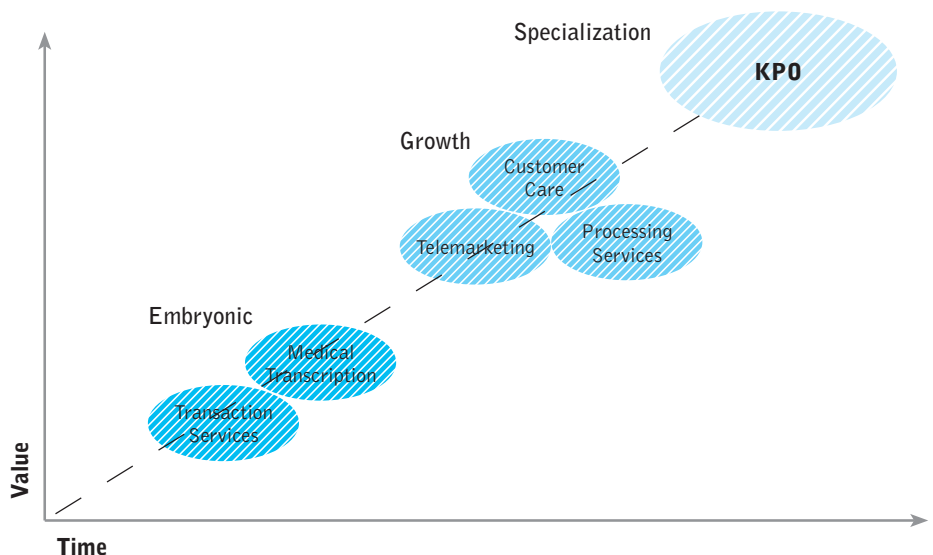
growth. Few areas which are evolving but have high potential are Engineering & Design, Animation and Simulation Services, Paralegal Content & Services, e-learning, Biotech & Pharmaceuticals, Research & Development and Equity, Financial Services and Insurance Research.

The central premise of a KPO is to create value for the customer by providing domain expertise rather than process expertise.

**India - a leading hub for KPO**

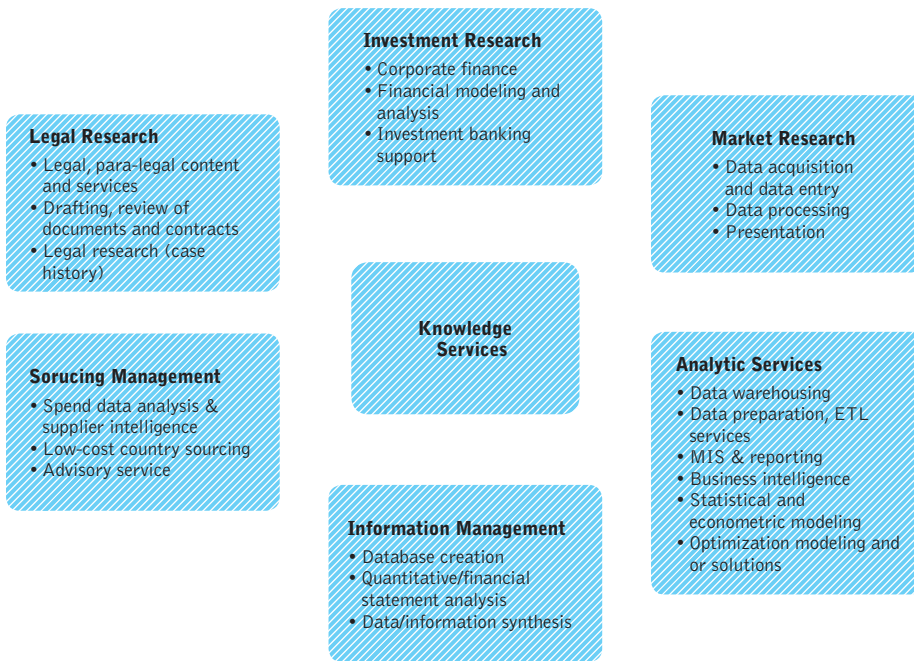
This evolution needs to be understood from the perspective of the strengths of India as a destination--and driver--of the KPO phenomenon. Analysts put cost advantage, incidentally one of the most significant drivers of KPO, from a KPO assignment at 50 percent. Another critical driver is the deficit of skilled human capital in developed countries like the USA and UK. It is expected that, by 2010, there will be a shortfall of 5.6 million skilled professionals in USA, and 700,000 in UK. This, coupled with the cost advantage, has resulted in high annualized growth in the KPO business.

**Graph 1: Evolution of KPO**



Source: Equinox Corporation

## Graph 2: Knowledge Services



Source: Equinox Corporation

India is one of the most preferred destinations for KPO because of its competitive edge in terms of a large English speaking labor pool, inherent domain expertise due to a large and developed domestic services industry, knowledge and application of internationally

accepted quality standards and processes; in addition to it having the first mover advantage with a well-established vendor base. But other geographies like Brazil, Israel, Ireland, Philippines and China are fast gearing up their education delivery mechanisms to eat a share of this \$12 billion market by 2010.

But, India has its share of challenges; its reputation of being a low-cost destination, high attrition rates in the industry and an unstable political climate. RocSearch, a global research support services company, expects the market in India to scale down from USD 12 billion to USD 5 billion, and employment levels to drop from 250,000 to 100,000.

But, on a positive note, India is adding more than three million graduates and professional degree and diploma holders annually. Home to the world's second largest reservoir of engineers and scientists, and the second largest pool of IT manpower, India does possess a distinct competitive edge. To further catalyze the growth in KPO, India should focus on developing a talent pool to manage this expected growth. The future of KPO in India depends not only on how India moves up the value chain in terms of services and offerings but also on how India can retain its competitive advantage of cost arbitrage, pool of knowledge professionals, and quality of deliverables. India is a proven success story in ITO and BPO; KPO is one in the making.



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