
Comparing KPO and BPO - An Analyst's Viewpoint

Arun Jethmalani

Chief Executive Officer

ValueNotes

Knowledge Process Outsourcing & Offshoring Asia 2007

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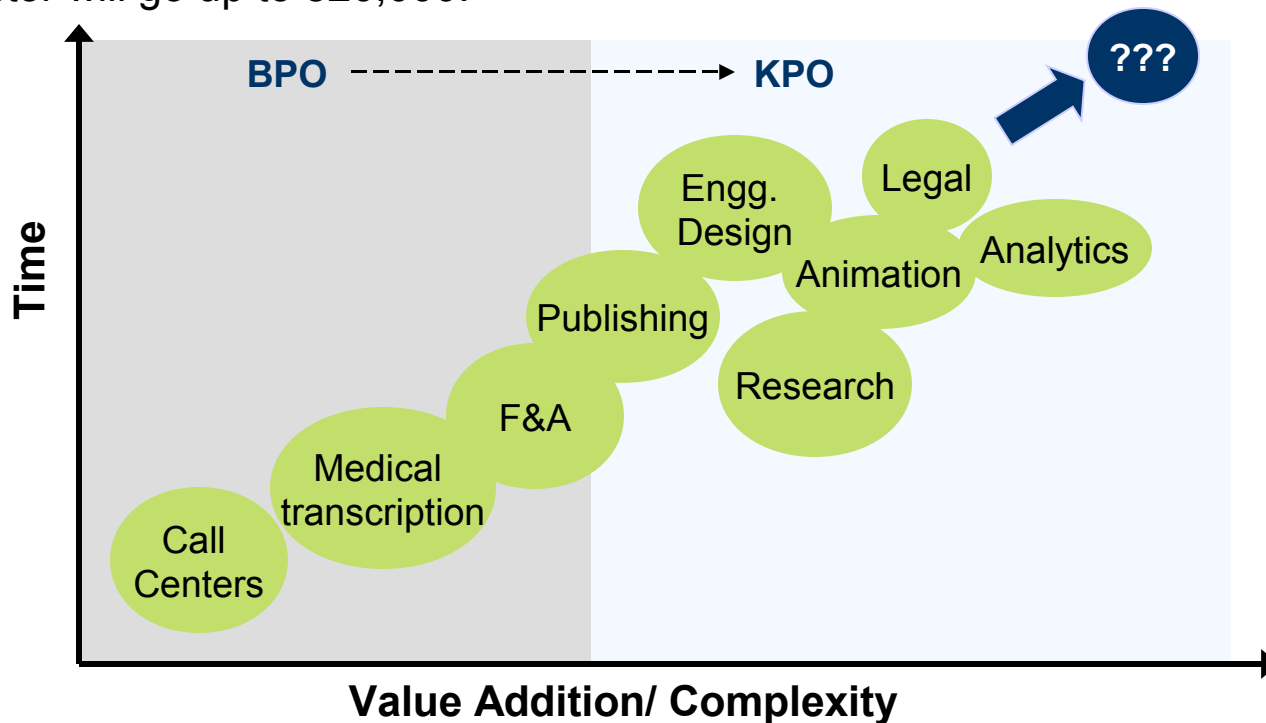
**What is a
knowledge
service?**

Business models

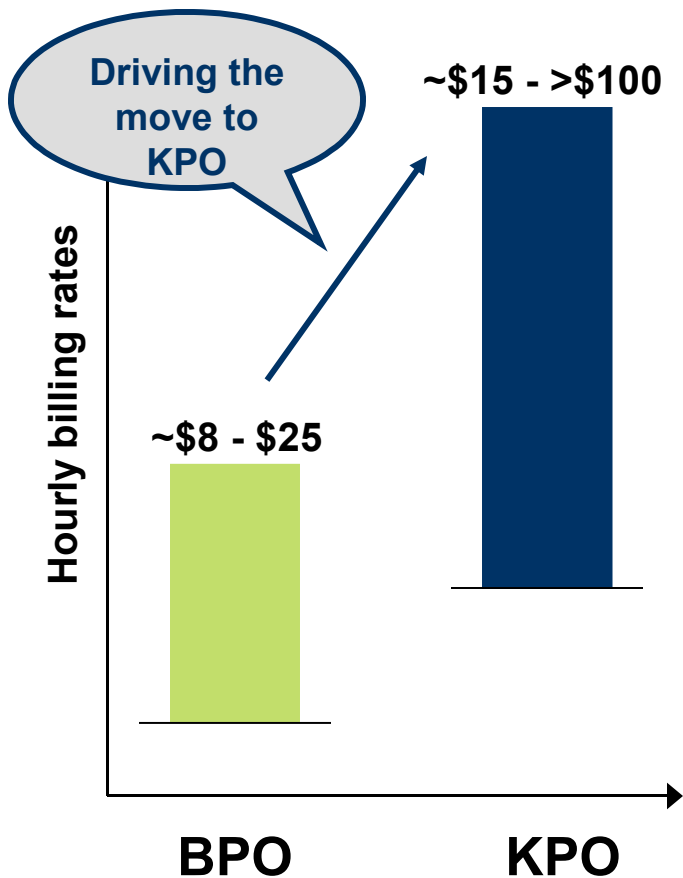
**Implications of
business models**



- Estimates about the size of the global KPO industry by 2010 range from \$15- \$18 billion.
- The sector is likely to grow faster than BPO in the next 3-4 years.
- By 2010, the KPO sector is expected to employ 250,000 professionals, while employment in the BPO sector will go up to 820,000.



The number of industries and professions to which KPO can be successfully applied is limited only by imagination.



Legal Outsourcing: BPOs (WNS), Law firms (Pangea3), individual lawyers, research firms (Manthan), etc.

Animation Outsourcing: Design firms (Tata Elxsi), graphics & content firms (DQ Entertainment), media & communication (UTV), IT companies (Wipro), BPOs (Nipuna), etc.

Auto/Engg. design: Software firms (Infosys), automobile cos. (Mahindra), auto ancillaries (Hero), BPOs (Wipro), specialised players (Neilsoft), etc.

Publishing: Publishers (MacMillan), specialist KPOs (Techbooks), designers, journalists, etc.

Research & Analytics: Financial services (JP Morgan), BPOs (WNS), IT companies (Wipro), specialized MR firms (Ugam, Marketics), high-end analytics (Inductis, MarketRx), traditional MR companies (AC Nielsen)

Taxation/Accounting: Big 4 (E&Y, Deloitte), local accounting firms (GKM), software firms (Mphasis), U.S. Facilitators (XpitaX)

The lure of higher billing rates, and innumerable niches/opportunities are driving a variety of new entrants into “KPO”



| | BPO | KPO |
|--------------------|---|---|
| Nature of Business | <p>Knowledge is applied by a few, while majority follow “process” with limited knowledge</p> <p><i>Call center, data entry, claims processing, payroll, medical transcription</i></p> | <p>Majority of work needs “knowledge” on part of individual workers, often involving decision making or judgment.</p> <p><i>Market research, data analytics, patent filing, design, clinical research</i></p> |
| Employment | <p>Predominantly “qualified” manpower, with specific skill-sets</p> <p><i>Science / commerce graduates with basic knowledge, computer skills</i></p> | <p>“Professionals”, with domain knowledge, with wider skill sets</p> <p><i>Lawyers (US laws), Engineers (Drafting, modeling), Doctors, etc</i></p> |
| Drivers | <p>Cost reduction and core competency</p> | <p>Resource extension, skill availability, intense competition and reduced time to market</p> |

Apart from costs; talent availability, globalization, intense competition and reduced time to market are driving the shift to KPO



| | BPO | KPO |
|-------------------------------|---|---|
| Contract Size | Typically longer duration contracts – ranging from six months to five / ten years | Much shorter duration (project based work) - ranging anywhere from a few days to years. |
| Measurability | Process-driven execution with high efficiency levels, which can be controlled by “quality checks” | Specialized execution and subjective value addition. Quality ” and deliverables cannot be precisely defined |
| Client - vendor relationships | Greater stress on automation, and compliance to standards and requirements; sub-contractor | Greater stress on ‘partnering’ and integration and sharing of responsibilities; resource extension |
| Evolution | Learning Curve Flattens; Further improvement in productivity/cost | Continuous learning; Ability to keep adding Value for customer |

The business and engagement models in BPO and KPO are significantly different

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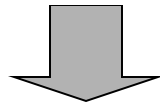
Business models

**Implications of
business models**



Companies are positioned across the niche/diversified spectrum...

Money (Pots of it)



The Factory Approach

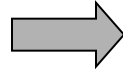
The KPO Factory

| | |
|----------|------------|
| Research | Analytics |
| Pricing | Investment |
| IP | Legal |
| Design | Publishing |

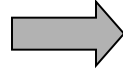
China

Philippines

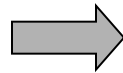
India



Telecom



Healthcare



Insurance



Technology



Travel



Banking/Finance

- US
- UK
- Europe
- Australia
- Japan
- Asia-Pac

...Going for the BIG Opportunity



The Specialist Approach

- A Little bit of money
- High degree of knowledge about market & customers
- Relevant skill sets & human resources

The KPO Factory

- Focused team
- Multiple but complementary skills

Only one vertical

OR

Only one group of users with similar characteristic

Definable Market

...Big Fish in a Small Pond

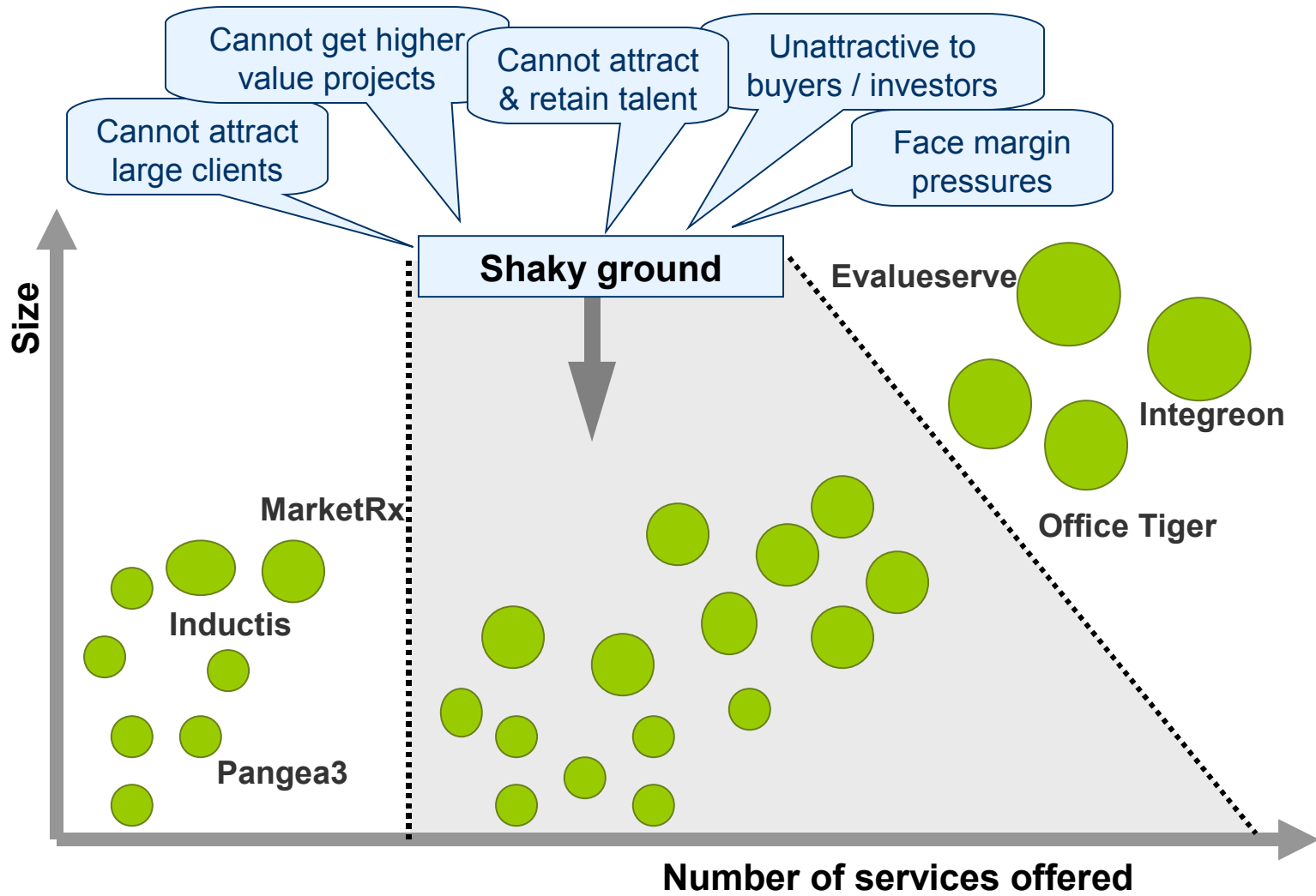
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**Implications of
business models**

| | Diversified | Niche |
|-----------------------------|---|--|
| Scale | Very important – “I have to be larger than the next guy” | Only within the niche – “I have to be the best/biggest in my selected area” |
| Cash Needs | Very high | Moderate |
| Marketing/ Customers | Diversified customer base: less targeted => higher marketing costs, but can leverage cross-selling opps. | Well defined customer: Better targeting => could lower marketing costs, and develop brand within segment |
| Price positioning | Usually lower prices, but premium pricing for managing composite service delivery | Move to premium pricing – by demonstrating quality, knowledge and process innovation specific to domain |
| People resources | Knowledge & skills + strong management to build and manage scale | Professionals with deep domain knowledge and high end skills |
| Market cycles | Better able to handle downside in any single business | Greater risk => all eggs in one basket |
| Attracting Talent | Large brand more attractive, can afford recreational infrastructure; some issues with a widely divergent employee base and less bonding | Not so strong brands, but focus will attract certain types of people; Can achieve closer bonding, sense of belonging |

There is no “correct” model, but what works best for you!



...To a conscious strategy
You have to decide sooner rather than later!

- **“Jack of All Trades” will not work. The diversified KPO will require “Mastery”**
 - Minimum scale, expertise and excellence within EACH area of specialization
- **Will be able to attract large customers by**
 - Building expertise along the entire value chain that allows bundling of services
- **Better margins and profitability due to**
 - Ability to serve v.large clients, and better utilization of capacity by doing work at lower price points if required
- **Can attract funding and investment**
 - As scale possibilities are more attractive to investors
- **Lower Risk**
 - Multiple services/markets insulates them from a downturn in any one segment

Evalueserve

Services: End-to-end research

Clients: Across a wide variety of segments (have completed more than 10,000 projects)

Strength: More than 1,700 employees

Differentiator: Delivery capabilities in 50 languages in multiple industries from centers in India, China, Chile

Integreon

Services: Legal outsourcing, Research, Enterprise knowledge

Clients: Financial services companies, law firms, & global 2000 corporations

Strength: Around 2000 employees

Differentiator: Diverse services, with a large team in each service, across geographies

It's not just Scale, but Scale & Specialization that will be the KEY to a successful diversified KPO



- **Cannot depend forever upon “opportunistic” growth. Will need to:**
 - Decide which area of specialization / niche they want to be in, or whether they should diversify
- **Value Addition**
 - “Productization” can help drive non-linear growth; and direct customer access
- **Charge premium billing rates**
 - Chase high margin growth by constantly demonstrating/adding expertise and innovation in the chosen niche
- **Need to build scale within the segment**

MarketRx

Services: Sales & marketing analytics to improve the performance of brand portfolios & pharma & biotech company sales forces.

Clients: All top 20 global pharma companies among others

Strength: Over 350 employees

Differentiator: Product enabled services company; proven market leadership

Pangea3

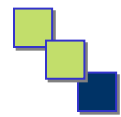
Services: Legal research, Patent prosecution and other services in legal outsourcing

Clients: Leading law firms, Fortune 500 companies, several mid-size companies

Strength: Around 200 employees

Differentiator: one of the early entrants, leadership in legal and patent support services

Growth and sustainability is linked to “value creation”



Diversified KPOs:

- Attracting significant funding / investment; may need several rounds of funding to scale
- Building managerial capability across geographies and specialisations
- Attracting & Retaining people
- Balancing the services mix to keep margins intact

Niche KPOs:

- Differentiating on the basis of capabilities & offerings - “being the best”
- Difficulty in raising funds and attracting investors
- Attracting & Retaining people
- Keeping on top of the latest technology and innovation in their chosen space



*Neither strategy is easy or “fool-proof”
Will require strong management, commitment & focus*

Detailed Sector Reports

An evolving range of sector focused reports providing in-depth information & analysis on outsourcing in different verticals

- Contract Research Opportunity in the Indian pharmaceuticals industry
- US Healthcare Revenue Cycle Management: Offshoring Medical Billing and Coding Services
- Offshoring Tax Returns Preparation to India
- Insurance Outsourcing: India Gains Momentum As Offshoring Intensifies
- Banking and Financial Services Outsourcing: From Transaction Processing to Analytics
- Offshoring of Automotive Design and Engineering Services to India
- The US Medical Transcription Industry: Perspectives on Outsourcing and Offshoring
- Offshoring Legal Services to India
- Offshoring in the Publishing Vertical
- Profiles of Third Party BPO vendors in India

Custom Research

A growing list of custom studies including opportunity assessment, vendor selection, case studies, benchmarking, cost-analysis, etc.

- Evaluation and benchmarking of vendors in the legal publishing industry
- Opportunity Assessment Study: Canada as a near-shore destination
- Study to analyze market-size and acceptance for an auditing solutions provider company
- Study of captive units of global banking and financial services organizations
- Short-listing of vendors in the legal publishing industry
- Benchmarking for an Engineering Design Outsourcing operation
- Comparative analysis of large IT services & BPO vendors in the US and India
- Competitive assessment of Call Centers locations - India, Philippines, Jamaica, South Africa and Mexico

***ValueNotes is one of the largest research / analyst firms
focused on outsourcing***

THANK YOU

Arun Jethmalani

arun@valuenotes.com