

# Trends in Knowledge Process Outsourcing

## Key Findings

The worldwide KPO industry generated USD 4.5 billion in revenue during 2006-07. This figure is expected to grow by 40 percent annually to reach USD 16.7 billion in 2011-2012.

The KPO industry employed approximately 106,000 professionals in 2006-07, predicted to grow to 350,000 in 2011-2012.

India has been the country to watch in the KPO space. Its KPO sector is forecasted to garner USD 11.2 billion in 2011-2012.

The equity research and investment banking domain currently represents one of the fastest growing areas of analytics offshoring.

The 'data search, integration, and management' sector within the KPO industry will account for the largest revenue share (29 percent) among different KPO verticals in 2011-2012.

Call centers and help desks have been shipped overseas for so long that Americans are used to customer service with an accent. You call New York and get New Delhi. Many other routine functions, such as insurance claims processing, data entry and help desks have followed suit. This movement is called *business process outsourcing*, or BPO, and has been a significant driver of emerging economies such as India.

Lately, professional services are traveling overseas. The advanced phenomenon is called *knowledge process offshoring*, or KPO, in which knowledge worker jobs are performed elsewhere. White-collar, white-hair professions such as financial analysts are supplemented by 30-something MBA's in India, China and even Latin America. With broadband, the barriers due to distance are evaporating and your colleague could be in the next cube or continent.

KPO is gaining wide acceptance as the benefits for companies that outsource are becoming enormous. Major KPO services include financial research, market research, life sciences research, legal research and analytics. The KPO industry is expected to enjoy rapid growth in the near future.

## Introduction

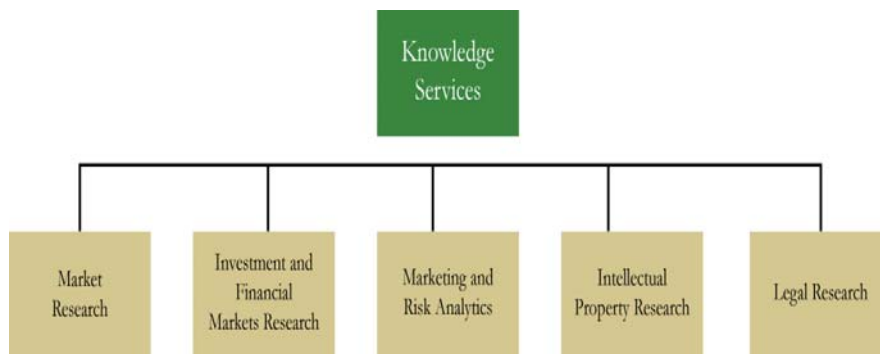
Knowledge Process Outsourcing (KPO) is outsourcing of knowledge-intensive business processes that require specialized domain expertise and advanced analytical skills. Being a recent development in the world of outsourcing, the definition and scope of a KPO firm differs across the industry.

A KPO firm can be differentiated from BPO companies in the following ways:

- KPOs require substantially more domain expertise and advanced analytical skills as the nature of the work is judgment-based and more complex compared to BPO, which is process oriented.
- Due to different skill set requirements in KPO and BPO, professionals in the KPO space can generate more revenues for the firm.
- The size of a KPO project is typically smaller by a factor of 5-10 than a corresponding BPO project.

A typical KPO firm provides research and analytical expertise in one or more of the domains depicted in the following figure:

### Verticals Served by the KPO Industry



Players in the KPO industry can be broadly classified as:

- **Integrated service providers:** Provide research services for multiple verticals.
- **Pure-play firms:** Provide research services for a specific vertical.
- **Captives:** In-house research centers.

*“KPO firms with operations in BRIC countries are tightly integrated with clients in the US, Europe and Asia, supporting a wide array of tactical and strategic initiatives. Such a structure was unimaginable just a decade ago. KPO is highly interactive in nature, fostering strategic partnerships rather than transactional relationships. In this way, KPO solutions can add maximum value to clients”*  
(Source: August 2008, Marc Vollenweider, Evaluateserve)

## Market Trends

Client perception of KPO is changing, according to NelsonHall, a business process outsourcing (BPO) analyst firm. KPO has been seen as a periodic service that supports discrete initiatives, such as sales campaigns. Increasingly, KPO is viewed as an integral part of business operations. Upshots include emerging growth opportunities in financial, pharmaceuticals, and other sectors, and a greater emphasis on globalization (Source: “[NelsonHall Study Links KPO with Market Entry and Product Introduction](#)”, February 11, 2008, NelsonHall, Tekrati).

Technology Partners International (TPI), a global sourcing advisory firm, maintains that KPO is people-intensive in that much of the work requires insight and analysis based on skills, experience, and judgment. The result and the recommendations are driven by judgment rather than by rule-driven processing (Source: “[Knowledge Process Offshoring \(KPO\): A Balanced View of An Emerging Market](#)”, July 2007, Technology Partners International [TPI]).

RocSearch, an analytics firm, notes that although cost advantages will continue facilitating the steady stream of offshored knowledge-driven work, clients will increasingly start basing their outsourcing decisions on quality and other revenue enhancing features (e.g., flexibility to scale/de-scale depending on business environment and quick turnaround of service). Therefore, players in the knowledge services space will have to quickly move from basing their business on purely economics to working closely with clients to create top-line value (Source: “[Knowledge Services Market](#)”, 2006, RocSearch, Business World).

In a research jointly conducted by KPMG, a consulting firm, and Swamy and Associates, an independent research and advisory firm, it was found that activities that require intensive analytical skills will likely be increasingly outsourced going forward, as captives and third-party service providers prove their execution capabilities. Activities that require high domain expertise will likely be at the lagging end of the outsourcing curve as KPO service providers make concerted efforts to acquire these skills (Source: “[Knowledge Process Outsourcing](#)”, February 2008, KPMG/Swamy and Associates).

Dr. Alok Aggarwal, co-founder and Chairman of KPO firm Evalueserve, notes that because of attrition and rising costs, companies with existing captives are also beginning to work with third-party vendors that can provide complementary skills and handle “spikes” in workload. During the next decade, this trend is likely to accelerate, enabling companies to move from a fixed- to a variable-cost model and transfer business from their own captive units to third-party vendors in low-cost countries (Source: “[India’s Knowledge Process Outsourcing](#)”

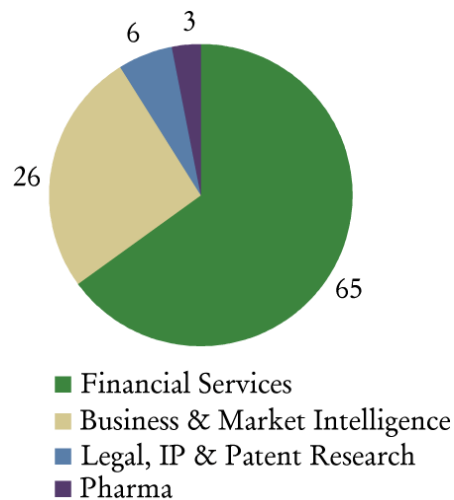
*Using KPO services, enterprises have been able to convert fixed costs to variable costs and shorten the process execution cycles (Source: “[NelsonHall Study Links KPO with Market Entry and Product Introduction](#)”, February 11, 2008, Andy Efstathiou, NelsonHall).*

*The equity research and investment banking KPO domain currently represents one of the fastest growing areas of analytics offshoring (Source: “[Knowledge Process Outsourcing](#)”, February 2008, KPMG/ Swamy and Associates).*

[\(KPO\) Sector: Origin, Current State, and Future Directions](#)”, July 5, 2007, Alok Aggarwal, Evalueserve).

The following figure shows the resource distribution as a percentage of the total resources among KPO segments:

### Resources Performing KPO Work



(Source: [“Knowledge Process Offshoring \(KPO\): A Balanced View of An Emerging Market”](#), July 2007, Technology Partners International [TPI])

The countries that will emerge as strong contenders in the KPO business are those that have large numbers of engineers, medical doctors, graduates in sciences and technology (including biotech and pharmaceuticals), MBAs, certified financial analysts, accountants, statisticians, lawyers, etc., points out Evalueserve. Low-wage countries that seem to have these professionals in large numbers include India, China, Russia, Poland, the Philippines, Hungary, and many republics of the erstwhile Soviet Union (Source : [“India’s Knowledge Process Outsourcing \(KPO\) Sector: Origin, Current State, and Future Directions”](#), July 5, 2007, Alok Aggarwal, Evalueserve).

*There is a positive correlation between sourcing maturity and geographic diversification. A number of demand-side, supply-side, and macroeconomic drivers will aid the process of the geographical expansion of the KPO industry (Source: [“Knowledge Process Outsourcing”](#), February 2008, KPMG/ Swamy and Associates).*

The following figure shows revenues generated by the Indian KPO industry in relation to the number of full-time employees:

### Indian KPO Revenue vs. Full-time Employees



(Source: "[India's Knowledge Process Outsourcing \(KPO\) Sector: Origin, Current State, and Future Directions](#)", July 5, 2007, Alok Aggarwal, Evalueserve)

## Growth Drivers

The growth in demand for KPO services will be similar to that of IT outsourcing and BPO. It will be fueled by the large firms, such as the Fortune 2000 firms, that form the bulk of offshoring buyers in the IT or business process space. Although there will be small- and medium-sized enterprises (SMEs) that will join the KPO bandwagon, TPI maintains that this growth will be limited, given the smaller base which this segment has so far demonstrated (Source: "[Knowledge Process Offshoring \(KPO\): A Balanced View of An Emerging Market](#)", July 2007, Technology Partners International [TPI]). The key areas of growth include sell-side financial services research for emerging markets/new financial instruments, drug trial data management, and market research services for corporates entering emerging markets (Source: "[NelsonHall Study Links KPO with Market Entry and Product Introduction](#)", February 11, 2008, Andy Efstathiou, NelsonHall).

The unique capability of the KPO industry to provide benefits to SMEs may drive the growth of the KPO industry even faster. Evalueserve estimates that out of approximately 10 million SMEs in the US and Europe, about 10 percent (i.e., approximately 1 million) could benefit

*Technology and telecommunication developments, including advances in information security, have enabled the globalized delivery of services and have reduced the reluctance to outsource and offshore (Source: "[Knowledge Process Outsourcing](#)", February 2008, KPMG/Swamy and Associates).*

from KPO services even in the short run (Source: “[India’s Knowledge Process Outsourcing \(KPO\) Sector: Origin, Current State, and Future Directions](#)”, July 5, 2007, Alok Aggarwal, Evalueserve).

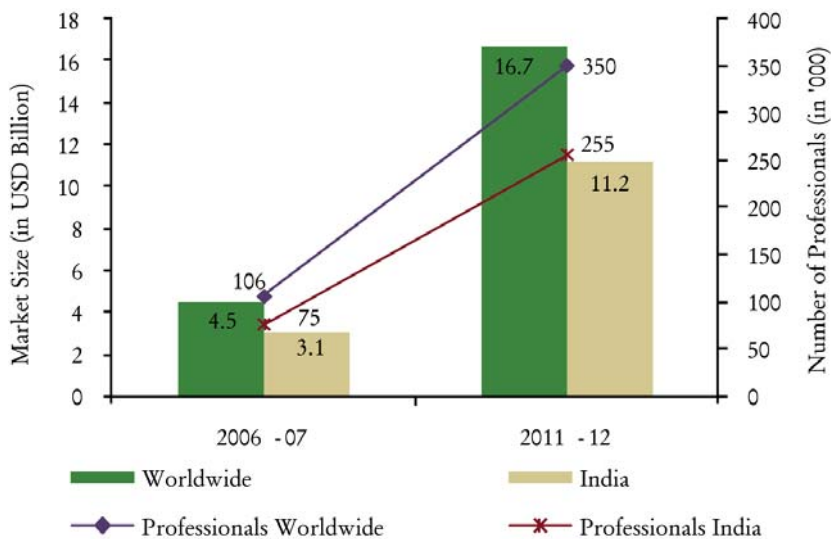
## Future Outlook

Given the pressing need for business intelligence to enable managers to respond aggressively to rapidly changing marketplaces, NelsonHall forecasted in February 2008 that the global KPO market will grow at 30 percent per annum over the next five years to reach USD 4.45 billion by 2012 (Source: “[NelsonHall Study Links KPO with Market Entry and Product Introduction](#)”, February 11, 2008, NelsonHall).

The following figure depicts the revenue trend and employee strength of the global and the Indian KPO industry:

*“We expect the vendor model (‘buy’) to surpass the captive model (‘make’) in KPO by 2010” (Source: “[KPO Growth Trends Mirror IT’s Move Toward Vendors](#)”, April 18, 2007, Marc Vollenweider).*

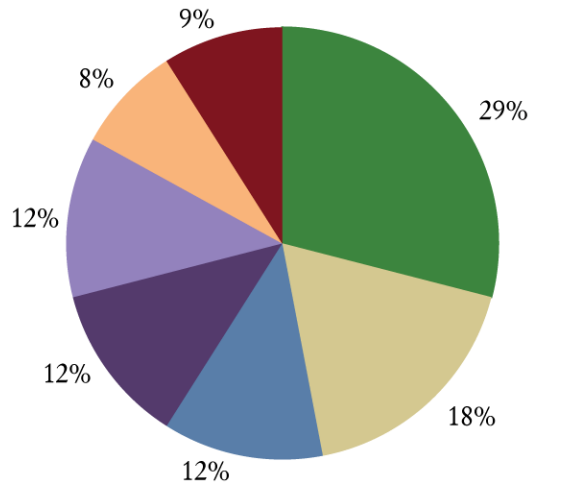
### Market Size of the KPO Industry



(Source: “Trends in Offshore Outsourcing: Service Science, KPO, and Knowledge Technology”, 2008, Evalueserve)

The following figure depicts Evalueserve’s estimation of the revenue distribution among different KPO verticals in 2011-2012:

**Major Service Offerings by 2011-12**



- Data Search, Integration and Management
- Biotech and Pharma
- Engineering and Design (incl. Highway Design, etc.)
- R&D (excl. Biotech & Pharma etc.)
- Remote Education and Publishing
- Animation and Simulation Services (incl. Analytics)
- Market Research & Intellectual Property

(Source: “Trends in Offshore Outsourcing: Service Science, KPO, and Knowledge Technology”, 2008, Evalueserve)

Several market estimates indicate that the KPO industry is expected to reach USD 12 billion to USD 17 billion by 2010, with India accounting for about USD 10 billion to USD 12 billion. However, given the nature of KPO and the growth in absolute numbers it has witnessed so far, TPI considers these estimates to be optimistic (Source: “[Knowledge Process Offshoring \(KPO\): A Balanced View of An Emerging Market](#)”, July 2007, Technology Partners International [TPI]).

With the supply of labor unlikely to exceed 100,000 skilled professionals, the market size will be smaller than currently expected, cautions RocSearch. Assuming that revenue per person in the industry stays more or less constant at USD 55,000 over the next four years, the total knowledge services market in India is likely to be around a mere USD 5 billion (Source: "[Knowledge Services Market](#)", 2006, RocSearch, Business World).

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### Consensus Opinion

Outsourcing rose by three rungs with the emergence of KPO. It reflects the increasing globalization and the willingness of companies to outsource work that was previously executed in-house. By positioning themselves as value creators, primarily by reducing variable costs, KPOs have found their way into the integral chain of business.

The KPO industry is in its infancy and players are still experimenting with various business models. The industry is currently segmented by models such as captives, pure-play firms, and integrated service providers. Among them, integrated service providers have taken the lead due to their ability to provide synergy across different verticals.

Any type of outsourcing activity is driven by one or a combination of factors such as cost advantages, scalability, the ability to provide quick turnaround, and geographical attractiveness. The KPO industry successfully integrates these factors, making it an attractive business proposition. However, it is still early days, and to take the KPO industry to the next level, players need to demonstrate their capabilities in handling complex assignments that demand advanced analytical skills and domain expertise.

As a people-intensive industry, manpower will be a crucial issue for the KPO sector. Analysts expect that the lack of talented manpower will be a limiting factor for the growth of KPO. Therefore, geographies with significant numbers of talented manpower will be preferred KPO destinations. Geographies with educated professionals, preferably post-graduates with domain specialization, will gain the largest pie of work. Other major factors for geographies to gain eminence on the KPO map will be infrastructure, communication skills, time zone attractiveness, and English-speaking skills.

The major drivers for the KPO industry have been financial services research, followed by business research and market intelligence. Services that are more technical in nature, such as intellectual property and clinical drug trials, etc., are expected to gain share as KPOs demonstrate domain knowledge and expertise in analyzing issues related to these sectors.

Analysts anticipate a bright future for KPOs. Although analysts are divided on how fast the industry will grow, they agree that it will register strong growth, albeit after overcoming some challenges. Enterprises across the board can benefit from services rendered by the KPO industry.

## References

- [“NelsonHall Study Links KPO with Market Entry and Product Introduction”](#), February 11, 2008, NelsonHall, Tekrati
- [“Knowledge Process Offshoring \(KPO\): A Balanced View of An Emerging Market”](#), July 2007, Technology Partners International [TPI]
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- “Trends in Offshore Outsourcing: Service Science, KPO, and Knowledge Technology”, 2008, Evalueserve

## List of Contributing Firms



Firm Name	Analyst quoted	Contact Information	Sales Contact
<a href="#">Evalueserve</a>	<a href="#">Alok Aggarwal</a> <a href="#">Marc Vollenweider</a>	<a href="mailto:alok.aggarwal@evalueserve.com">alok.aggarwal@evalueserve.com</a> <a href="mailto:marc.vollenweider@evalueserve.com">marc.vollenweider@evalueserve.com</a>	<a href="#">Contact</a>



Firm Name	Analyst quoted	Contact Information	Sales Contact
<a href="#">NelsonHall</a>	<a href="#">Andy Efstathiou</a>	<a href="mailto:andy.efstathiou@nelson-hall.com">andy.efstathiou@nelson-hall.com</a>	<a href="#">Howard Spode</a>

## Trends in Knowledge Process Outsourcing — Perspectives



Firm Name	Analyst quoted	Contact Information	Sales Contact
<a href="#">RocSearch</a>	-	-	<a href="#">Contact</a>



Firm Name	Analyst quoted	Contact Information	Sales Contact
<a href="#">Swamy and Associates</a>	Sriraman ("Sri") Annaswamy	<a href="mailto:sriraman@swamyandassociates.com.au">sriraman@swamyandassociates.com.au</a>	+61 (2) 8215 1504



Firm Name	Analyst quoted	Contact Information	Sales Contact
<a href="#">TPI</a>	-	-	<a href="#">Contact</a>

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