

issues & trends



“India has the world’s second largest reservoir of Engineers, Scientists and Managers plus the largest pool of IT manpower with nearly 50+% being fairly proficient in English. It is therefore not surprising that most estimates project that India will corner two-thirds the size of the Global KPO business – an impressive \$12 billion in the next 5 years and employing over a quarter million people”, says Achal Khanna, Country General Manager, Kelly Services India.

www.kellyservices.in

Knowledge Process Outsourcing (KPO) – An Emerging Opportunity

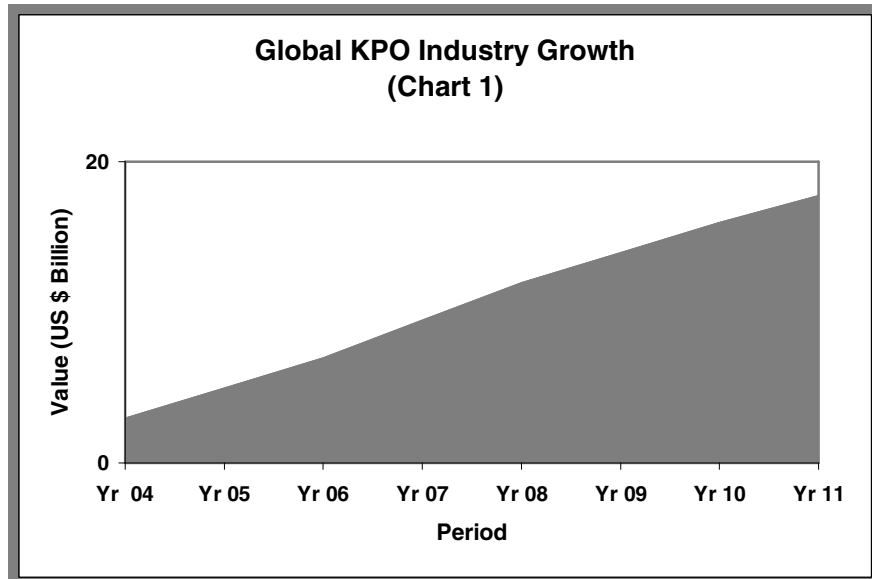
KELLY
SERVICES

INTRODUCTION

Improved communication systems at much lower cost and an attitudinal change to view the world as a single platform are globalizing businesses rapidly and progressively leading to offshoring of knowledge based businesses to locations that offer domain expertise, technical skills and operational efficiencies in the most cost-effective manner. This paradigm shift has led to a sudden spurt in what is called the 'Knowledge Process Outsourcing' (KPO) business worldwide. KPO involves the outsourcing of knowledge intensive services including creating, sharing, maintaining, tracking & disseminating knowledge and covering a variety of industry segments including; Financial Services, R&D in Pharmaceutical/Biotechnology, Design Services, Analytics, Consulting, Market Research, Statistical Analysis, Legal, Architecture, Intellectual Property, Human Resource, Publishing, Education, Training, Animation and more.

SIZE AND GROWTH

The Global KPO business, currently worth nearly \$2 billion, is estimated to reach \$16-17 billion level in the next 5 years. While estimates can go wrong and the projected 40+% growth may or may not be achieved, there is no doubt that KPO is going to be one of the highest growing businesses in the coming decade.



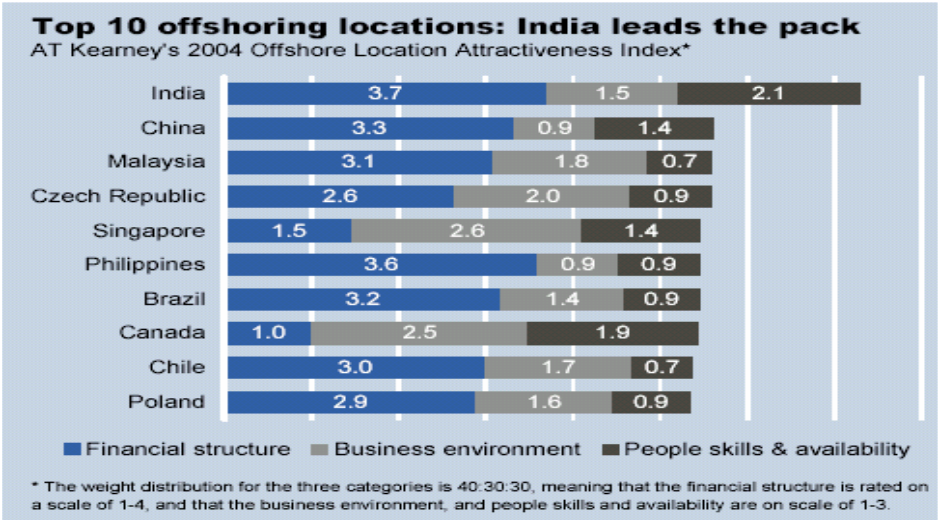
INDIA - PREFERRED DESTINATION

India, China, Russia, Philippines, Israel, Czech Republic, Argentina, Singapore, Mexico, Ireland are the main emerging offshoring destinations both for KPO and BPO. India is by far the most attractive KPO destination thanks to its competitive salaries (<40% of USA); proficiency in English (70+ million people) and the large and competent pool of quality professionals (nearly 3 million new graduates every year).



A study by Mckinsey on the ranking of countries by “People Attractiveness” (Quality, Cost, Type of Skill, English Language), ranks India as the top offshoring destination in the world. After India, the other countries in order of people attractiveness are: Philippines, Australia, UK, Ireland, Singapore, Mexico and China.

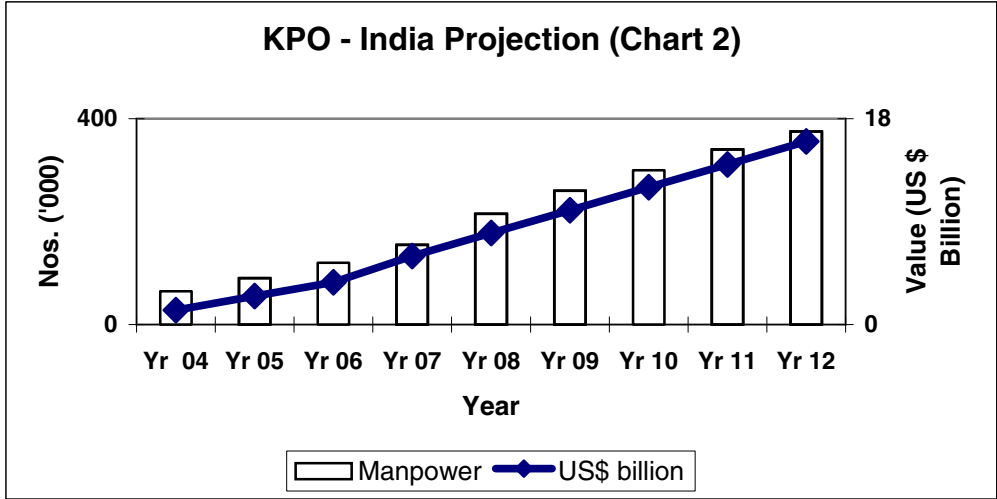
In the A.T. Kearney 2004 ranking of offshoring global locations, India is ranked as the top offshoring location based on 3 key criteria; ‘Financial structure’, ‘Business environment’ and ‘People skills and availability’ (see chart below). On the criteria of “People skills and availability, India’s score of 2.1 is vastly superior to every other country in the world.



India has the world’s second largest reservoir of Engineers, Scientists, Managers and the largest pool of IT manpower with nearly 50+% being fairly proficient in English. While China will be an emerging threat, India will continue to have an edge in the KPO business for a long time since there are over 6 times more people going to Universities in India as compared to China.

| | |
|-----------------------|----------------|
| University | 380 |
| Colleges | 13,150 |
| Research Institutes | 1,500 |
| Engineering Graduates | 200,000 p.a. |
| Management Graduates | 45,000 p.a. |
| Doctors | 120,000 p.a. |
| Other Graduates | 2,100,000 p.a. |
| Post Graduates | 300,000 p.a. |
| PhD’s | 9,000 p.a. |

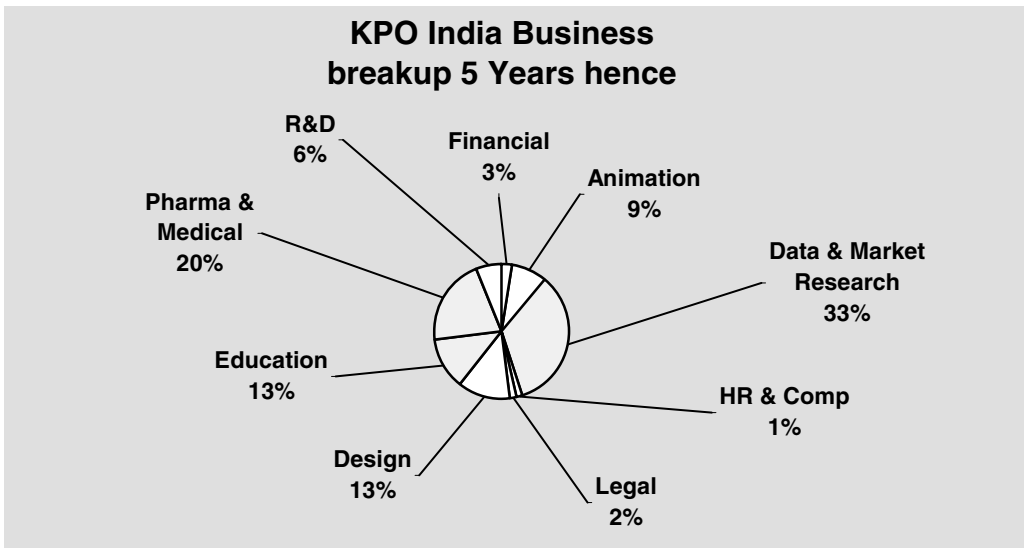
It is therefore not surprising that most estimates project that India will corner two-thirds the size of the Global KPO business – an impressive \$12 billion in the next 5 years and employing over a quarter million people.



Already a large number of Indian and foreign players have made successful entries into the KPO domain in India. These include Evalue Serve, Genpact, JP Morgan, Morgan Stanley, Smart Analyst, Mckinsey, Value Notes, Netscribes, Smart Cube, WNS Global, Quest, HSBC, Office Tiger, Citigroup, Reuters, Fidelity, Tech books, HSBC, ITC Client Logic and Copal Partners. It is estimated that most of these will grow the India KPO business manifold in the coming years while a host of new players will simultaneously enter the KPO segment in India.

STRUCTURE OF THE KPO INDUSTRY IN INDIA

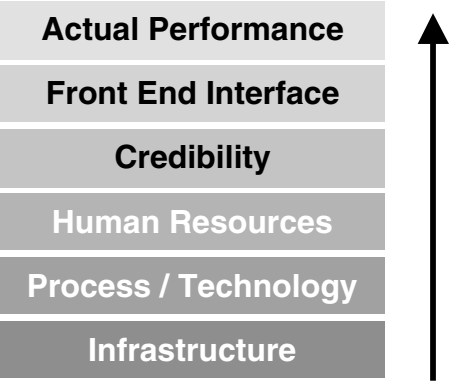
India is expected to achieve a very high growth rate in all the technically advanced segments of the KPO Industry. The estimated value pie distribution amongst major domains in the next 5 years is shown in the chart below.





KPO – BUSINESS DRIVERS

Companies evaluating offshoring opportunities in KPO typically evaluate opportunities on the following broad parameters:



Infrastructure: Good infrastructure of the company and also of the city / country is a basic need of foreign clients for offloading KPO work. Foreign companies coming into India to set up a KPO, as well as Indian companies, have demonstrated the capability to set up a world class infrastructure. Unfortunately the macro level infrastructure in India and more so in the non-metro cities is possibly one of the biggest limiting factors from a foreign company’s view point.

Process/Technology: The KPO’s in India have done an excellent job of setting up world class delivery processes, quality standards and systems. Hence on this front, the KPOs in India have the capability to compete on equal footing with the best in the world.

Human Resources: Being a knowledge intensive business, KPO work requires a high degree of domain expertise. India’s high quality manpower with intellectual expertise in different domains and yet being cost effective is undoubtedly the biggest attraction for foreign companies looking for good KPO locations.

However, despite the huge manpower base, India is already facing a crunch in the supply of good knowledge workers. This is leading to the problem of quick job changes, rising salaries, poaching and attrition. These issues need to be addressed at both macro and micro level if India aims to achieve the targeted growth.

The other various Human Resources related issues are covered later in this paper.

Credibility: KPO work requires a very close interaction between the vendor and the customer and requires a very high degree of information and knowledge sharing, including highly confidential and sensitive data. Therefore, one of the biggest concerns a client has while offshoring KPO work is that of; Confidentiality, Security Infringement, Intellectual Property and Employee Credibility.



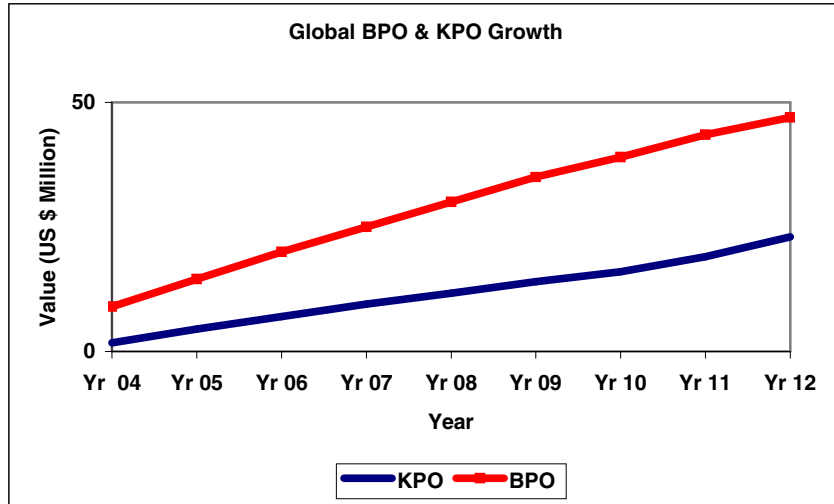
An Ernst & Young 2004 Global Information Security survey highlights that virus, spam and employee misconduct are the key concerns regarding knowledge sharing within India. These concerns have to be addressed properly and client confidence has to be built by Indian companies so that a client is assured that his knowledge/data is safe and is being treated with the same extent of confidentiality in India as they would find in their own country/company. Strong Government policies, better security practices by companies, voluntary company audits through international accounting firms and employee background checks etc, will go a long way to enhance India's credibility in this area.

Front End Interface: For the captive KPO this is not a very critical issue. But for third party KPO, the front end interface with customer, building trust, demonstrating credibility and domain expertise, understanding needs, transitioning the job, working out the delivery model and defining performance criteria, all play a critical role. Since it is not possible to have pre-defined and rule-based processes and performance measures in a KPO operation (unlike BPO), an understanding of clients' quality needs, maintaining strong client interaction (and of course delivering high quality work) is critical for the Indian KPO to establish credibility and assure long term profitable business. While a lot of BPO business transition to India has created a negative image of India as a "low cost, low quality only" destination, India's success in the IT Industry has helped India garner the image of a 'Technology Giant' which is helping the transition of KPO business to India.

Developing the right infrastructure, setting up proper processes and technology, building a strong & capable team, establishing a reputation of confidentiality and data security, developing strong bonds with clients and finally delivering quality work on time will lead to the ability for offshoring companies to really add value to their clients' businesses through higher quality, efficiency and productivity and simultaneously lower cost.

BPO - KPO

BPO's undertake standard processes that are rule based and hence demand higher volume and limited skills. KPO, on the other hand, requires technology, analytical and decision-making competences and no doubt KPO companies charge more than twice the man-hour rates than that of a BPO job. The outsourcing business, which started with BPO, is now also propelling the outsourcing of Knowledge Process work. The move up the value chain to KPO is actually considered complementary to the BPO business and not contradictory. Kiran Karnik, President of NASSCOM recently stated in a published article "KPO is the next step in the outsourcing business". Hence, unlike the common stated belief, it's not "BPO vs. KPO" but in fact "BPO & KPO". The global growth estimates of BPO & KPO Global Business are shown in the chart below.



Offshoring BPO work is easier and yields a saving of \$10-25 per man-hour for the client while offshoring KPO work can give a much higher saving of \$25-50 per man-hour (or even more) to the client. The saving potential in KPO will continue to encourage the industry to offshore KPO work and hence the very high growth rate in offshoring KPO work is now a foregone conclusion.

From India's view point, KPO offers a much better long term business prospect. India, with its rising salaries (amongst the highest growth in the world), will start losing its cost advantage in the BPO segment during the next 4-6 years to other countries like China, Ukraine, Philippines, Romania, Malaysia and alike who are simultaneously working on increasing the base of their English speaking population. The KPO segment requires much higher technical/domain skill and business expertise in which India is expected to out perform virtually all countries for many years and hence will have a business edge for a long time. Hence the KPO segment is expected to grow faster in India at nearly 45+% as compared to BPO which is estimated to grow at 25%. However, due to a large existing base, the BPO segment will continue to be the lead revenue earner and employment generator in India.



GOVERNMENT INTERFACE

The Government has an important role to play to make a country an attractive KPO destination. From India's perspective, the Government has to lay emphasis on the following areas:

Policies: Set policies and guidelines that aid the Industry and to desist from the earlier practice of cumbersome regulations & processes that breed bureaucratic delays. Fortunately the Government has demonstrated strong support for this Industry not just with lip service but also a lot of ground level action.

Infrastructure: The weakest link observed by foreign companies regarding India is the very poor infrastructure. While some effort has been initiated by the Government, India still has a very long way to go in a number of fields including roads, airports, power supply etc.

Marketing: Jointly with the concerned bodies the Government can play an important role in developing a global brand for India.

Legislation: To address the global concern for information security, the Government has to align its policies on data privacy with global norms and even more important – implement these.

Education: While India can boast of its large education base with a lot of emphasis on Science and Mathematics, there is always a question mark on 'Quality' as a major component of the education process. There are major changes required in the education system to develop educated talent that has relevance to the emerging needs of a knowledge based economy. Better schooling at primary level on a much wider base, increasing the number of the higher quality institutions and keeping checks on the mushrooming of colleges with weak education standards, will help sustain India's position as the best talent pool in the world.



A WIN-WIN SITUATION

Contrary to the common belief that outsourcing is bad for countries like USA/Europe, various studies prove the opposite. As per a study by McKinsey, for every \$1 of labour cost outsourced by USA, the total global value creation is \$1.45-1.47. Out of this value, the receiving country gets around \$0.33 and the remaining \$1.12-1.14 comes back to USA in terms of goods/services procured from USA and repatriated earnings.

MANPOWER ISSUES & RECRUITING IN KPO

Being a manpower intensive business, the single largest concern in a KPO (like a BPO) is 'Attracting, Recruiting, Training, Developing, Performance Managing and Retaining Manpower'.

In the Indian context, KPO salaries can be 25-50% higher than those offered to the same domain experts (Engineer, Doctor, CA, Lawyer, Architects, Biotechnologists, Statisticians, MBA's, Economists etc.) in conventional jobs. But with KPO being a new industry there is hesitation in the minds of the professionals to consider KPO as a suitable career opportunity. Correcting this misconception at a national level can best be done by the National Level Associations through a suitable PR campaign. At operational level, the role of the KPO organization and the recruiting agency is very important as they have to take the lead in explaining the nature of the job and future career prospects to professionals in order to attract them to KPO jobs.

Unlike BPO, where the recruiting process is relatively simpler and aims to check Voice, Accent or Data entry & Attitudinal skills; the KPO recruiting process has to be much more complex as it also involves the evaluation of domain knowledge, intelligence, analytical & data mining skills, decision making abilities, conceptualizing skills, verbal and written communication skills, attitude and the ability to work in teams & under pressure. The recruiting needs of a KPO are met both directly by the company and also by independent recruitment companies. Surprisingly, very few recruiting companies in India have worked towards developing specialized recruiting teams with requisite skills & systems to fulfill this evolving industry need. A focused KPO recruiting effort by good recruiting companies will surely add a lot of value to the clients' recruiting needs. To be successful in KPO recruiting and to add value to clients recruiting needs, the recruiting companies need to set up a proper recruiting system which should ideally be a three level evaluation process aimed at checking; a) Domain expertise. b) Softer skills, credibility & references. c) Decision making ability & analytical skills. A systematic evaluation & short-listing effort by the recruiting company can help the KPO client to reduce its 'Interview to Selection' ratio, which normally is 20-25:1, to levels closer to 3:1 or even better. Dhiren Shantilal, Managing Director & Vice President of Kelly Services- Asia Pacific, states "Realizing the huge potential for quality manpower in the KPO Industry in India, we have set up a special team which has been trained to fulfill the recruiting needs of this Industry segment".



With emerging manpower demands from the KPO segment, it is estimated that most leading recruiting companies will make a serious effort in the coming years to gain a foothold in this segment. However, unlike BPO segment recruiting, this will require higher recruiting skills and a more focused effort. Hence companies with required domain expertise and proper recruiting systems alone will succeed in this segment.

Post recruiting, ongoing training and cross-training (10-15% of employee time) to handle work spurts and changing client needs are a must in the KPO business to guarantee client satisfaction. Simultaneously, all aspects of human resource management including career counseling, evaluation, feedback, motivation, monitoring etc, will play an important role in helping the companies to retain talent and develop a reputation that will help them to attract the best professionals from the Industry.

Long term success of KPO in India will rest on a holistic approach to the issue of manpower and this will require; the Government to improve quality & relevance of education; recruiting agencies to help attract, evaluate and recruit the best talent and the KPO to train, develop and retain the talent.

References:

The White paper has used data and reports from NASSCOM Studies, Evaluate Serve Research Documents, WNS Global Services, McKinsey, AT Kearney, Delhi Institute of Advanced Studies, Articles in Economic Times, Business Standard, and Business India. However the information has been suitably analyzed, updated & revised to incorporate the current trends.



About Kelly Services

Kelly Services, Inc. (NASDAQ: KELYA, KELYB) is a Fortune 500 company headquartered in Troy, Michigan offering staffing solutions that include temporary staffing services, staff leasing, outsourcing, vendor on-site and full-time placement. Kelly operates a network of offices across Europe, Asia Pacific and Americas. Kelly provides employment to more than 700,000 employees annually, with skills including office services, accounting, engineering, information technology, law, science, marketing, light industrial, education, health care and home care. For more information visit www.kellyservices.com

CORPORATE OFFICES

902, 9th Floor, Tower B
Global Business Park, MG Road
Gurgaon -122002 (Haryana)
Tel: 91-124 430 0323 -26
Fax: 91-124 406 8689
Email: info@kellyservices.co.in

61, 6th Floor, Maker Chambers III
Nariman Point, Mumbai 400021
Tel: 91-22 6632 5775
Fax: 91-22 6632 5780
Email: info@kellyservices.co.in

BRANCH OFFICES

Bangalore

3rd Floor, PHOENIX Building
#57 Defence Colony, Ward No 74,
100 feet Road, HAL 2nd Stage,
Indranagar, Bangalore 5600038.
Tel: 91-80 4191 1800
Fax: 91-80 4191 1899
Email: bangalore@kellyservices.co.in

Chennai

Thulsii First Floor
79, G N Chetty Road, T Nagar
Chennai 600017
Tel: 91-44 6562 3333
Fax: 91-44 4264 9030
Email: chennai@kellyservices.co.in

Hyderabad

MCH No: 6-3-1089/C/A
Gulmohar Avenue (Villa Marie College Road)
Rajbhavan Road, Somajiguda,
Hyderabad-500 082.
Tel: 91-40 4020 4444
Fax: 91-40 4020 4452
Email: hyderabad@kellyservices.co.in

Mumbai - Andheri

201 A/B, 2nd Floor, Pramukh Plaza
Cardinal Gracias Road, Andheri (E)
Mumbai 400099
Tel: 91-22 6696 0260 - 76
Fax: 91-22 6696 0277
Email: andheri@kellyservices.co.in

Mumbai - Bandra

Unique Centre, 2nd Floor
15 Waterfield Road, Bandra (West)
Mumbai 400050
Tel: 91-22 6675 4301
Fax: 91-22 6675 4310
Email: bandra@kellyservices.co.in

New Delhi

Building No. 9, Community Centre
PVR Anupam Complex
Saket, New Delhi 110019
Tel: 91-11 4161 8960
Fax : 91-11 4161 8965
Email: newdelhi@kellyservices.co.in

Pune

503, 5th Floor Nucleus Mall,
Opp. Police Commissioners Office
1 Church Road Camp., Pune 411001
Tel: 91-20 6609 4160
Fax: 91-20 6609 4164
Email: pune@kellyservices.co.in

KELLY IT RESOURCES OFFICES

Bangalore

703, Prestige Meridian II,
30, MG Road, Bangalore - 560 001
Tel : 91-80 2559 1263 / 66
Fax : 91-80 2559 0682
Email: info@kellyit.co.in

Chennai

Thulsii First Floor
79, G N Chetty Road, T Nagar
Chennai 600017
Tel: 91-44 6562 3333
Fax: 91-44 4264 9030
Email: chennai@kellyservices.co.in

Pune

503, 5th Floor Nucleus Mall,
Opp. Police Commissioners Office
1 Church Road Camp., Pune 411001
Tel: 91-20 6609 4160
Fax: 91-20 6609 4164
Email: pune@kellyservices.co.in

www.kellyservices.in

Research done in collaboration with:

Access Management Services (P) Ltd
www.accessindia.in

Research commissioned by:

Kelly Services India Pvt. Ltd
902, 9th Floor, Tower B, Global Business Park
MG Road, Gurgaon -122002 (Haryana)
Tel: 91-124 430 0323-26
Fax: 91-124 406 8689
Email: info@kellyservices.co.in



*Celebrating
60 Years
of Excellence*

© 2006 Kelly Services

KELLY
SERVICES