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

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Knowledge Process Outsourcing (KPO) – An Emerging Opportunity

KELLY
SERVICES

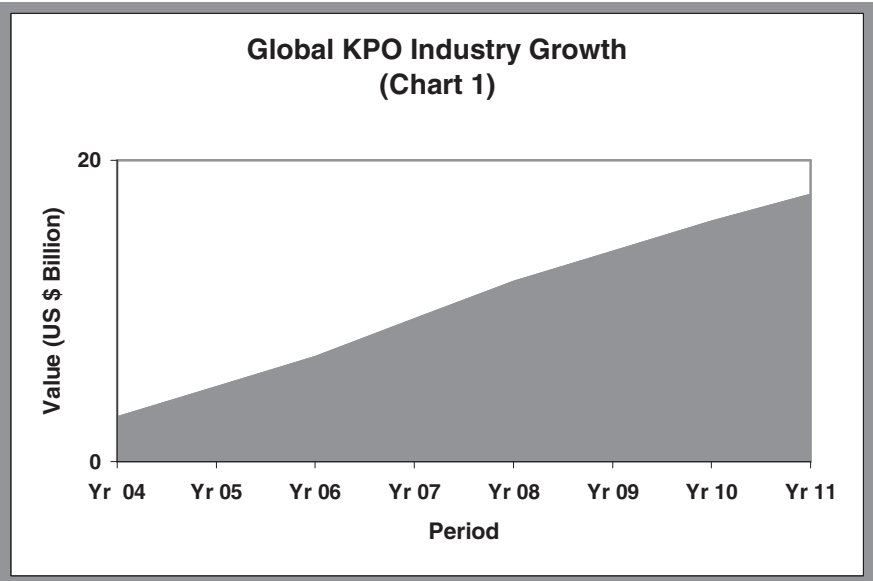


INTRODUCTION

Improved communication systems at much lower cost, and an attitudinal change to view the world as a single platform is globalizing business rapidly and is progressively leading to off-shoring of knowledge based businesses to locations that offer domain expertise, technical skills and operational efficiencies in a most cost-effective manner. This paradigm shift, has led to a sudden spurt in the Knowledge Process Outsourcing (KPO) business worldwide. KPO involves outsourcing knowledge intensive services including creating, sharing, maintaining, tracking & disseminating knowledge 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 etc.

SIZE AND GROWTH

The Global KPO business of nearly \$ 2 billion is estimated to reach \$ 16-17 billion level in 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 business in the coming decade.

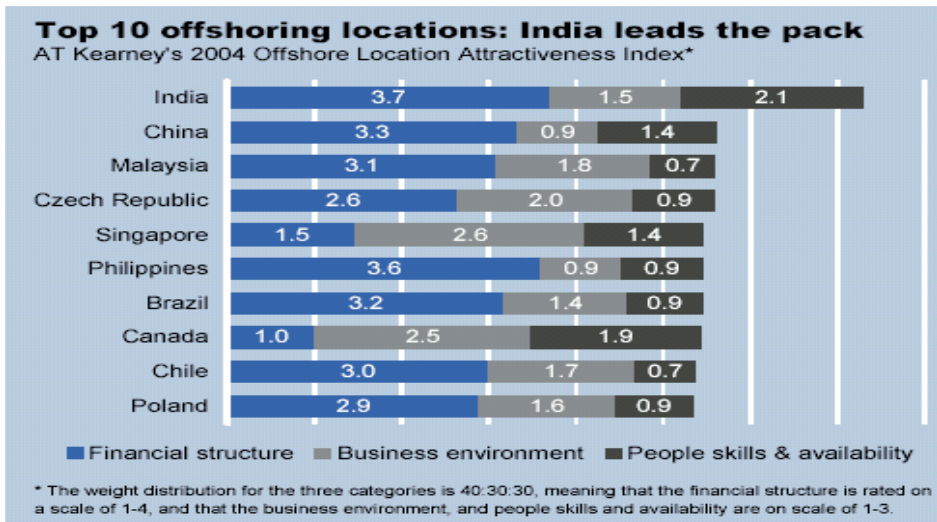


INDIA - PREFERRED DESTINATION

India, China, Russia, Philippines, Israel, Czech Republic, Argentina, Singapore, Mexico, Ireland are the emerging off-shoring 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); large and competent pool of quality professionals (nearly 3 million new graduates every year).

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

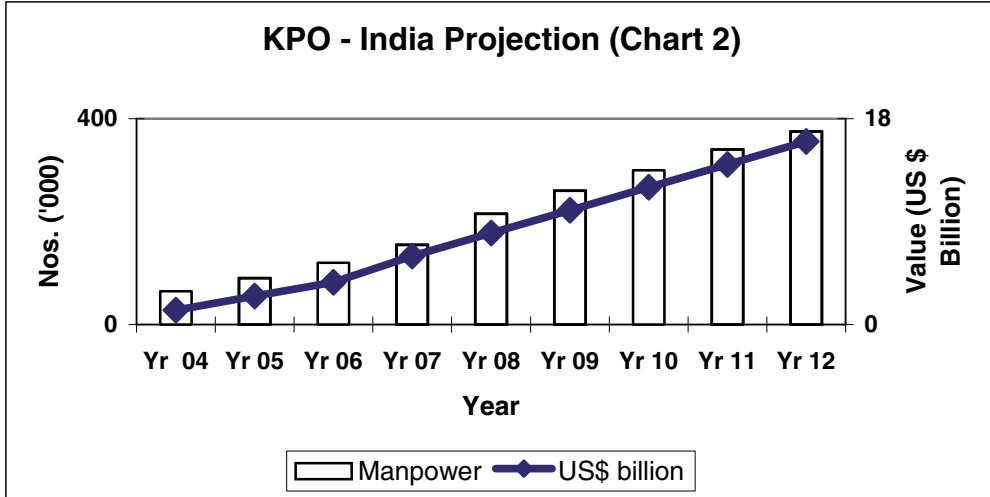
A.T. Kearney 2004 ranking of off-shoring global locations, ranks India as the top off-shoring location based on Financial structure, Business environment and People skills and availability (see chart). On People Skills and availability, India’s score of 2.1 is vastly superior to every other country in the world.



India has the world’s second largest reservoir of Engineers, Scientists, Managers and Skilled person, and the largest pool of IT Manpower with nearly 50+%, fairly proficient in English. While China will be an emerging threat, India will have an edge in KPO business for a long time, because over 6 times people go 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.

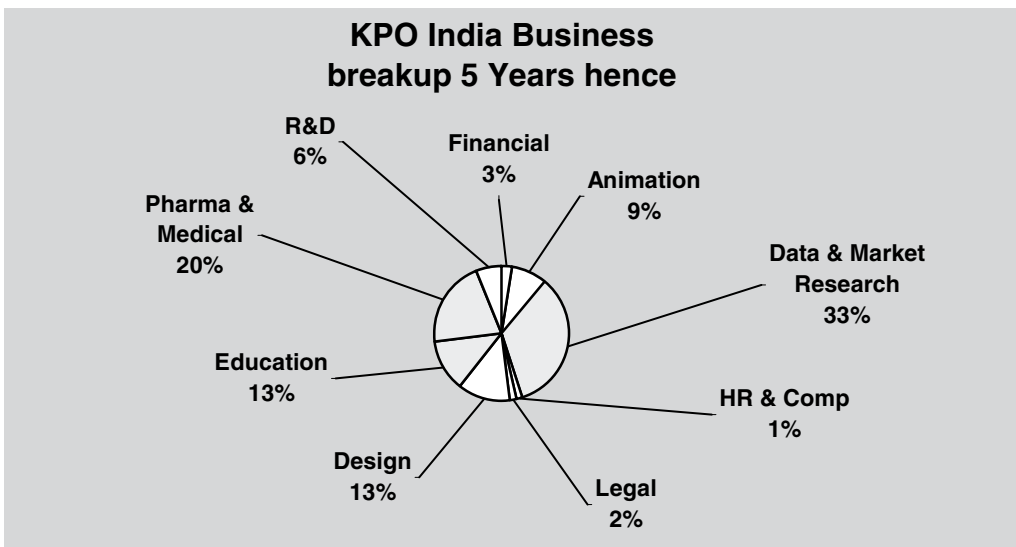
It is therefore not surprising that most estimates project that India will corner two third size of the Global KPO business – an impressive \$ 12 billion in next 5 years employing over a quarter million people.



Already a large number of Indian and foreign players have made successful entry in the KPO domain in India. These include Evalve 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, Copal Partners etc. It is estimated that most of them will grow the India KPO business manifold in coming years while simultaneously a host of new players will enter the KPO segment in India.

STRUCTURE OF THE KPO INDUSTRY IN INDIA

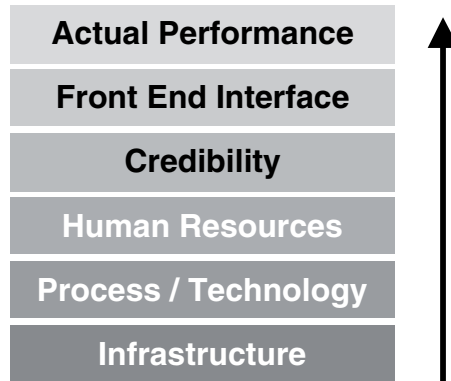
India is expected to achieve a very high growth rate in all the technically advanced segments of the KPO Industry. The estimated value pie distribution amongst major domains in the next 5 years is given in the chart.





KPO – BUSINESS DRIVERS

Company's evaluating off-shoring opportunities in KPO; typically evaluate opportunities on the following broad parameters:



Infrastructure: Good Infrastructure of the company and also of the city / country is the basic need of the foreign client while offloading KPO work. The foreign companies coming to India to setup KPO, as well as the Indian companies setting up KPO, have demonstrated the capability to set up world class Infrastructure. Unfortunately, the macro level infrastructure in India, more so in the non-metro cities is possibly one of the biggest limiting factor from the 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 and hence the KPO's in India have the capability to compete on equal footing with the best in the world on this front.

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 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 supply of good knowledge workers, leading to the problem of quick job changes, rising salaries, poaching, attrition etc. These issues need to be addressed at Macro and Micro level, if India aims to achieve the targeted growth.

The various other 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 biggest concern of the client, while off-shoring KPO work, is Confidentiality, Security Infringement, Intellectual Property and Employee Credibility.



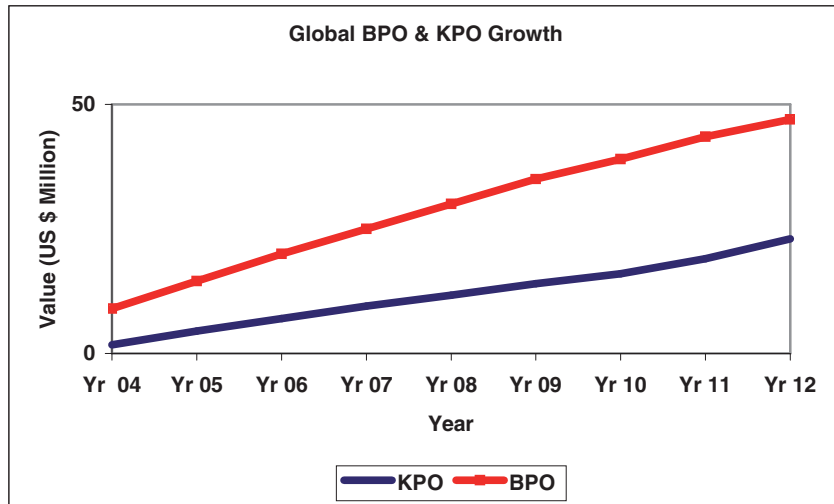
E&Y 2004 Global Information Security survey highlights that virus, spam, employee misconduct are the key concerns regarding knowledge sharing with India. These concerns have to be addressed properly and client confidence has to be built by Indian companies, so that client realizes that his knowledge / data is safe and is being treated with same extent of confidentiality in India, as they would do it in their own country / company. Strong Government polices; better security practices by companies; voluntary company audit through International accounting firms, 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 play a critical role. As it is not possible to have pre-defined rule based processes and performance measures in a KPO operation (unlike BPO), understanding clients quality needs, maintaining strong client interaction (and of course 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 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 proper processes and technology, building a strong & capable team, establishing reputation of confidentiality and data security, developing strong bonds with client and finally delivering quality work in time will lead to the off shoring company's ability to really add value to the client's business, 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 skill. KPO, on the other hand, require Technology, Analytical and Decision making competence – no doubt the KPO companies charge man hour rates more than twice that of BPO job. The outsourcing business, which started with BPO, is now propelling the outsourcing of Knowledge Process work also. The move up the value chain to KPO is actually complementary to the BPO business and not contradictory. As Kiran Karnik, President NASSCOM in a published article states "KPO is the next step in the outsourcing business". Hence, unlike an often stated belief, it is not BPO vs. KPO but BPO & KPO. The Global growth estimates of BPO & KPO Global business are given in the Chart.



Off-shoring BPO work is easier and yields a saving of \$ 10-25 per man hour for the client while off-shoring 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 a very high growth in off-shoring 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 etc. 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, where 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 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 the country an attractive KPO destination. From India’s perspective, the Government has to lay emphasis on:

Policies: Set policies, 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 a 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, Government can play an important role in developing “Brand India” on a global basis.

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 it.

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 of a major section 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 check on 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

Unlike the normal 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, the receiving country gets around \$ 0.33 and the remaining \$ 1.12-1.14 benefit comes back to USA in terms of goods / services procured from USA and repatriated earnings.

PEOPLE 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 job. But KPO, being a new industry, there is hesitation in the mind 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 job; future prospects etc to the professionals and 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 evaluation of domain knowledge, intelligence, analytical & data mining skills, decision making abilities conceptualizing skills, verbal and written communication skills, attitude, ability to work in teams & under pressure. The recruiting needs of 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 focussed KPO recruiting effort by good recruiting companies will surely add a lot of value to the client's recruiting needs. To be successful in KPO recruiting, and add value to clients recruiting need, the recruiting companies need to setup 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 his 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 – Kelly Asia Pacific states that "Realizing the huge potential for quality manpower in the KPO Industry in India, we have setup 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 coming years to gain a foothold



in this segment. However, unlike BPO segment recruiting, this will require a higher recruiting skill and a more focused effort. Hence the 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 is 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: Government, to improve quality & relevance of education; recruiting agency, 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, Business India etc. 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

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