

Knowledge Process Outsourcing

MARKET & OPPORTUNITIES



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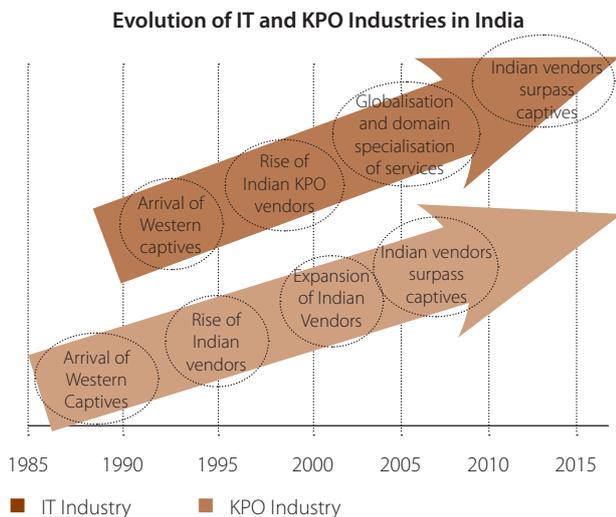
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KPO Industry in India

Indian KPO Industry – Evolution

The evolutionary phases of the Indian KPO industry are very similar to that of the Indian IT industry. Activities related to IT offshoring/outsourcing commenced in India in the late 1980s. During this period, foreign companies such as IBM, Texas Instrument, Motorola, HP, etc preferred establishing captive centres in India. A few third-party players were also active in India during this period. Subsequently, the number of IT vendors in India increased with more companies venturing into IT. The Nascent KPO industry is following the footsteps of the IT industry. Both industries started with captives, and subsequently saw the rise of vendors.

KPO will follow the IT model with a time lag of 10 years.



Source: Evalueserve

Although KPO and BPO sound synonymous, they are involved in activities which are completely different. In the BPO sector, the vendor acquires a process from the end-client and runs it at its site until the process reaches its logical conclusion, after which the results, if any, are then

sent to the client. In contrast a KPO vendor functions at a different level viz, as follows: KPO focuses on delivering value-added services to the clients. Its prime objective is to provide clients with useful insights that may assist them in their strategic decision making process.

- KPO companies provide knowledge-intensive work and engage highly skilled professionals such as MBAs, CAs, CFAs, engineers, PhDs, doctors, lawyers, etc.
- Training is an essential component of the KPO industry. As the market is highly dynamic, one has to keep abreast with the latest trends, technologies and developments. KPO professionals continuously hone their skills through rigorous training plans.
- Hourly charge rates for KPO services are significantly higher. The number of players in the KPO domain is also less as compared to the BPO industry. This results in less congestion in the KPO market, which eventually translates into better profit margins.

Overall, KPO creates value for the client by focussing on domain expertise rather than process expertise.

KPO Services vs BPO Services - A Comparison between Different Industry Segments

	BPO	KPO	
Insurance	Contract centre and customer support	Claim analysis	Underwriting and asset management
Consulting	Back office support to clients	Global research	Synthesised reports
I-Bank	Settlement	Financial analytics	Equity research
Pharma/ Healthcare	Contact centre and customer support	Patent design	IP portfolio analytics
Telecom/ Retail/etc.	Contact centre and customer support	Analytics	Strategy research

Source: Evalueserve

Value Proposition of KPO

The increasing competition in global businesses has resulted in a smaller cycle time for introducing products and services. With customers demanding high-quality services, enterprises are forced to adopt systems and business models that will not only provide operational efficiency, but also add strategic value to their products and services. This is where KPO helps enterprises by enabling companies to reduce design-to-market lead times; manage critical hardware efficiently; provide research on markets, competition, products and services; enhance organisational effectiveness in business administration; and help in dealing with rapidly evolving business scenarios. Customisation enhances the value proposition of KPO.

company. The investment required to establish a captive centre is incurred by the parent company. As the capital investment involved (in establishing a captive centre) is large and the payback period is also high, these set-ups are generally established only by large MNCs. Moreover, the scalability of the captive centre is dependant on the amount of work, which is generally low as the centre caters solely to the requirements of the parent company.

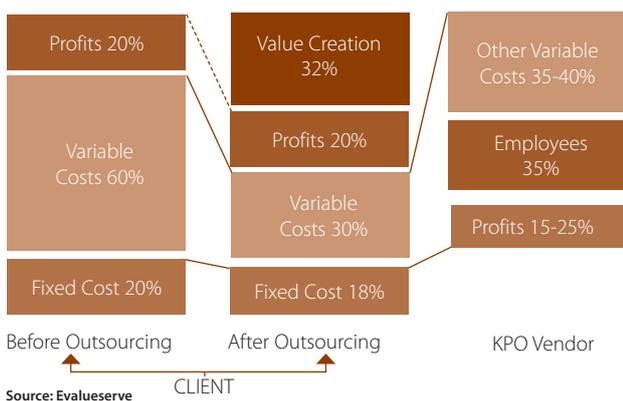
- Examples of prominent captives in India include Goldman Sachs, Morgan Stanley, McKinsey, JP Morgan, UBS, Deutsche Bank, etc.
- Lack of adequate management integration and management support

Third-party Service Providers (Third-party players)

Since the cost associated with captive centres is high, especially if the volume of work is not large, third-party service providers offer a viable option to companies. A number of large and small companies are working as third-party services providers and supplementing KPO services from India. One of the key benefits of third-party service vendors is that operations can be ramped up as and when required. At the same time, third-party vendors offer greater flexibility and customisation to clients. Some of the companies operating on this service model include Evalueserve, Irevna, Aranca, etc.

Since KPO services involve the assimilation and dissemination of sensitive information, clients place great emphasis on data security and other data confidentiality parameters. Third-party service providers address these concerns by formulating service-level agreements with clients and certifying their process under quality audits such as ISO 27001.

KPO Services and Value Creation



Companies outsourcing work to a KPO vendor can help save costs up to 32 per cent on revenues, assuming that the profit margin remains constant.

Business Model

Indian KPO vendors operate mainly through three business models, i.e., captives, third-party and virtual. The selection of a business model depends on many parameters such as the complexity of the work, internal competency levels, nature of business (core or non-core) and costs involved.

Virtual Captives

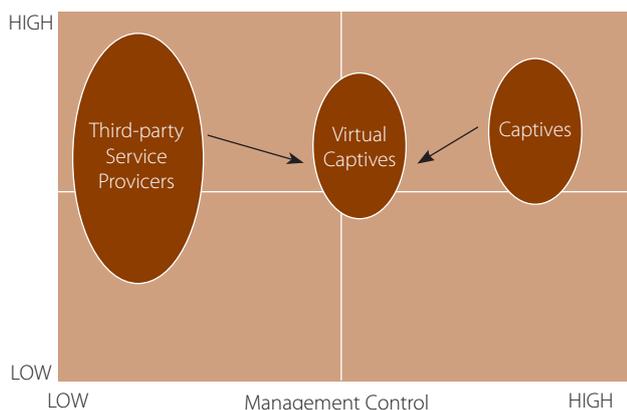
Virtual captive centres have both the functionality of captives and third party service providers. It is a hybrid business model. There is no upfront investment undertaken by the parent company in establishing the centre as in a captive centre. This centre acts as an overseas resource centre for a client in the third-party service provider setup. The major advantage of virtual captive is that, it provides higher quality of services involving higher transparency, control and security. The clients are usually willing to pay a premium for virtual captive services.

Captive Centres

In a captive centre set-up, a multinational company establishes its dedicated operations in countries offering high talent availability and low cost of operations. Captive centres cater only to the requirements of the parent

Indian KPO industry is witnessing a significant growth of third-party service providers with respect to captives. The prominent reasons include the range of services, cost advantage and scalability which is driving higher growth of

Knowledge Process Outsourcing Business Models in India



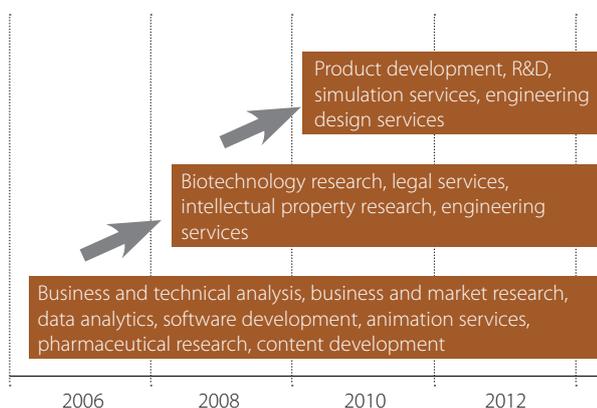
Source : Evalueserve

third-party service providers. According to a study by Everest Research Institute, third-party service providers are 5 to 15 per cent less expensive than their captive peers, in terms of the total cost of operations.

Major Segments of KPO Industry

The Indian KPO industry is estimated to be worth US\$ 3.05 billion in 2006-07. Indian players provide a wide range of solutions to diverse industry segments such as FMCG, engineering, automobile, telecom, R&D, banking and financial services, insurance, etc. It is expected that in the coming years both the volume and complexity of the work being outsourced to Indian KPO players will increase.

KPO Services Outsourced to India



Source: Evalueserve

The following are some of the major services that are currently being provided by KPO players:

With India becoming an important player in the KPO industry, the range of services being outsourced is continuously increasing.

- Data management, search and analytics
- Contract research and biotech.
- Engineering design
- Remote education and publishing
- Animation and gaming services
- Banking, securities and insurance
- Market research and competitive intelligence
- Scientific and medical content publishing
- Business and consulting research
- Network optimisation and analytics
- Legal research and IP
- Translation and localisation
- Remote logistics services and procurement
- Human resource research and analytics
- Marketing and sales support

The seven largest segments of the KPO industry in terms of revenue are described below:

Data Management, Search and Analytics

Data Management, search and analytics services include information regarding the market, competition, products and services, customers, etc. These services assist clients in gaining a better understanding of their business issues and developing effective solutions to mitigate these. This service segment is availed by a large number of clients across industries such as FMCG, telecom, banking services, etc.

A clear understanding of the subject, an in-depth knowledge of the industry and specialised software such as SPSS, SAS, etc., facilitate the provision of insightful data to the clients. Some of the major data analytics services employed by KPO firms include the following:

- Customer analysis (mainly used for FMCG companies, telecom operators, insurance firms, banks, etc.)
- Supply chain analysis (mainly used for manufacturing and logistics firms)
- Retail analysis (mainly used by FMCG companies to understand the buying behaviour of customers)

Contract Research and Biotech

Contract research is among the fast-growing segments in the biotech and pharma R&D domain.

The growth of the global healthcare and pharma industry has been hindered by high development costs, lower number of unique molecules discovered, increased development timelines and dynamic market conditions. These factors expose the industry to high risks as a large number of investments are involved in research-related activities. Currently, the outsourcing of research and development work seems to be a viable option available to mitigate the risks involved. India has been receiving substantive works in the biotech and pharma fields.

India offers a strong advantage in clinical research and trials due to the following factors:

- Availability of a large and diverse patient pool
- Reduced time for data analysis
- Availability of large skilled workforce

India’s success in contract research and biotech outsourcing can be attributed to the confluence of several factors such as a high degree of support from the government, low cost, highly skilled professionals (scientists and research personnel), a large number of patients from diverse backgrounds and quality infrastructure. Further, the Indian contract research and biotech KPO firms have established strong position in contract research, generic research and manufacturing, and innovative product developments.

Pharma research relates to innovative drug discovery, drug development, generic manufacturing, contract manufacturing, etc. Contract manufacturing services outsourced to Indian vendors include clinical development services, bioavailability, bioequivalence, clinical trial management and monitoring, data management offerings, etc. It is estimated that there are approximately 400 large and small pharma companies operating in India, which cater to the domestic demand while fulfilling the outsourcing requirements of global players.

Engineering Design

Engineering design outsourcing or Engineering Services Outsourcing (ESO) as it is popularly known refers to the outsourcing of engineering-related work to other companies to leverage the differential cost advantage. For example, an intensive automotive design involves US\$ 800 per man hour in Europe as compared to US\$ 60 per man hour in India.

ESO involves the outsourcing of activities ranging from design to production and maintenance. The major industrial sectors benefiting from ESO include automotive, aerospace, hi-tech/telecom, utilities and construction/ industrial machinery. Apart from India, other countries that have developed expertise in ESO are Canada, China, Mexico, and countries in Eastern Europe.

Earlier, the quality of work outsourced to India was low-end engineering and design work. However, the availability of a versatile, high-quality workforce at a low cost has resulted in ESO work moving up the outsourcing value chain, from design work using computer-aided design (CAD) to high-end engineering activities. The figure below depicts the transition of ESO services in India:

ESO Vendors in India
KPO Services in the Engineering and Design Segment

1980s	1990s Onwards
<ul style="list-style-type: none"> - Scanning and digitisation of engineering drawings - Migration of CAD work from one system to another 	<ul style="list-style-type: none"> - 2D and 3D modelling - Finite element analysis - Computerised fluid dynamics analysis - Technical specifications for tenders - Value engineering - Process simulation study - Prototyping - Product performance testing through virtual simulation - Research and development - Engineering design and detailing

Industries being catered are : telecom, utilities, heavy engineering, automotives, aerospace and electric/electronic machinery design

Source : Evalueserve

IT companies are gearing up to take advantage of the ESO services potential in India.

The automotive and aerospace industries have been responsible for the surge in ESO activities, which is evident from the fact that a number of automotive and aerospace

companies such as the Ford Motor Company, General Motors, Boeing and Airbus are offshoring their engineering and related works to Indian companies. Some of the prominent examples of ESO work undertaken in India are mentioned below:

- Infosys played a pivotal role in developing a portion of the Airbus A380 wing
- HCL Technologies provided software and hardware development services to Boeing's 787 Dreamliner project
- TCS provides IT and engineering services to Ferrari for the development of F1 racing cars

Further, many semiconductor and electronic goods manufacturing companies and mobile handset vendors are also leveraging ESO opportunities. Indian markets basically offer two categories of players, i.e., captive units and independent services providers.

ESO Vendors in India

Captives	Independent Vendors
- Bechtel	- Tata Consultancy Services
- Flour Daniel	- Wipro Technologies
- Ford	- Satyam Computer Services
- Daimler Chrysler	- HCL Technologies
- General Motors	- Infosys
- Caterpillar	- Rolta
- Texas Instrument	- Eicher Engineering Solutions
- Motorola	- Mahindra Engineering
- Intel	- Neilsoft
- Nokia	- Geometric Software

Source : Evalueserve

REMOTE EDUCATION AND PUBLISHING

Remote Education

India is an attractive destination for work related to remote education due to the availability of a large number of professionals at a low cost as compared to major markets such as the US. Various companies that have ventured into offshore education services and are currently expanding their operations to utilise the untapped potential. Companies operate in the remote education segment through three different models, subcontract model, direct model and retail services model.

- In the subcontract model, the company collaborates with another company in a particular geography and provides its services in that region through that company, for example, Career Launcher collaborating with eSylvan, Smart Thinking, tutor.com, etc.
- In the direct model, the company provides its services in a

particular geography by directly associating (joint venture operations) with the schools, for example, Educomp Datamatics.

- In the retail services model, the company provides services in a specific geography through a tutor base in India – for example, Growing Stars.

Writing Content and Publishing

Since publishing is time bound, labour intensive and process specific, offshoring it to developing countries results in cost advantage to companies. Approximately 40-50 per cent costs can be saved by outsourcing publishing work to India. Further, Indian vendors are also leveraging the technology effectively to re-engineer the processes and improve the turnaround time.

The main market target segments of offshored publishing services include publishing houses, educational institutes, information aggregators, professional societies, government agencies, universities, corporations, etc. Many large content developers such as Reed Elsevier, Blackwell, Academic Press, University Press, Thomson Learning, McGraw Hill, etc., are outsourcing publishing related work to India.

ANIMATION AND SIMULATION SERVICES

The increase in the global demand for animation content is accompanied by a corresponding increase in the outsourcing of creative content development. By outsourcing, companies can save approximately 40-60 per cent of the cost associated with animation content development.

Indian animation services have witnessed a broad transition in services from merely data cleaning to content development. Some of the major international production houses are outsourcing animation and related work to Indian companies such as Toonz Animation, Crest Communication, Maya Entertainment, UTV Toons, etc. The in-house production of animation movies/content is another trend that is fast gaining in popularity in this service domain.

The companies operating in India function through the following three different business models, based on their level of engagement with the project/partner.

- In-house production – Animation studios create their own

animation content and market it to global companies. Studios developing the content own the IP rights and thus earn revenues from royalties and the sale of the content.

- Outsourced Animation – Such animation studios primarily cater to the requirement of global companies. The content is developed as required by the global company that also holds the IP for it. The content development company to which the work is outsourced earns revenues on a per-hour per-project basis.
- Collaborative Animation – It involves multiple animation studios that develop the content collaboratively. The IP rights are shared among the companies involved.

BANKING, SECURITIES AND INSURANCE

Equity research captive centres in India

- JP Morgan
- Standard Chartered
- Goldman Sachs
- ABN AMRO
- Lehman Brothers

Offshoring of research-related activities by the banking, securities and insurance domain fall under the preview of investment research, which involves financial modelling, preparing the valuation of companies, stock process tracking, detailed company analysis and profiling, etc.

India has gained prominence in the various services related to investment research due to the availability of a large, skilled workforce that includes MBAs, CAs, CFAs, etc., who are capable of handling complex problems related to investment research.

A large number of investment banks have either established or are planning to establish their operations in India. For example, Goldman Sachs has established its centre in Bangalore, which provides services in asset management, equity and treasury operations, investment banking and corporate services. Further, Morgan Stanley has a research division in India for equity and fixed income research. Almost all of these banks have adopted a dual sourcing strategy and outsource their work to a third-party provider along with the captives.

Market Research and Competitive Intelligence

McKinsey Knowledge Centre (McKC) supports its global research-related activities from its centre in India.

The offshoring of market research services commenced with data collection and data cleaning. However, market research service vendors started receiving high-end MR work such as industrial and customer surveys, data analysis through statistical tools and techniques, report and presentation preparation, etc. Therefore, a clear shift from information gathering to knowledge-intensive operations became obvious. Some of the prominent companies operating in India in the market research domain include AT Kearney, Bain & Co., Evalueserve, Monitor Group, Everest Group, AC Nielsen, Pipl Research, Irevna, etc.

KPO SKILL-SET WITH RESPECT TO VARIOUS SEGMENTS

Since the KPO domain is a knowledge-intensive industry, different service segments require a different skill-set and industry experience. Some of the major skill set required are listed below:

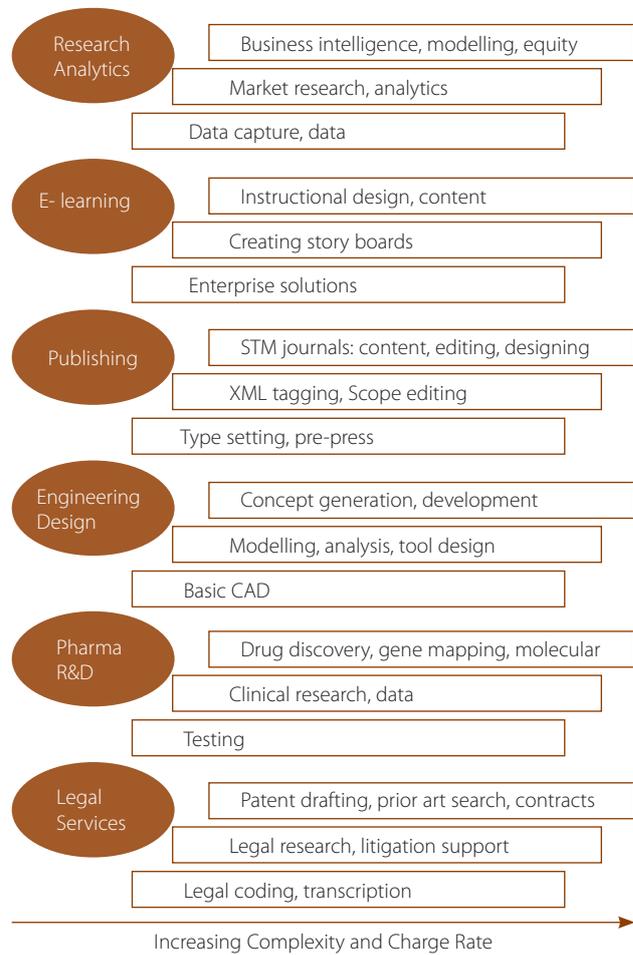
Some of the KPO players have diversified their service offerings by nurturing the talents and skills required to initiate high-end work such as intellectual property, analytics, investment research, etc.

KPO Services Segments and Skills Required

Services Segment	Services Offered	Skill Set
Legal Services	Drafting contracts, reviewing transactional and litigation documents, research memoranda, prosecutions, etc.	Proficiency to undertake legal research, draft legal applications, knowledge of the US and UK laws, etc. (E.g. lawyers)
Engineering and Design	2D and 3D modelling, conversion, finite analysis, value engineering, dynamics analysis, etc.	CAD/CAM, drafting and modelling, product design, etc. (E.g. engineers)
Market Research and Data Analysis	Primary and secondary research, writing and editing reports, data analysis, etc.	Statistical tools, research techniques, report writings, presentations, database research, etc. (E.g. MBAs and Engineers)
Content Development and Publishing	Data enrichment and warehousing, proofreading, pre-press work, editorial, etc.	English language and communication skills, journalistic experience, report writing, etc.
Healthcare and Pharma	Clinical research, R&D drug discovery, etc.	Graduates in science, master's degree in science, medical degree, etc. (E.g. PhDs and doctors)
Education and Training	Private tutors, content developers, curriculum design, etc.	Teaching experience, subject knowledge, etc., professors and teachers)

Source : Evalueserve and Value notes Research

Level of Complexity in KPO Services



Source : Value notes Research

Market Size and Growth Trends of the KPO industry

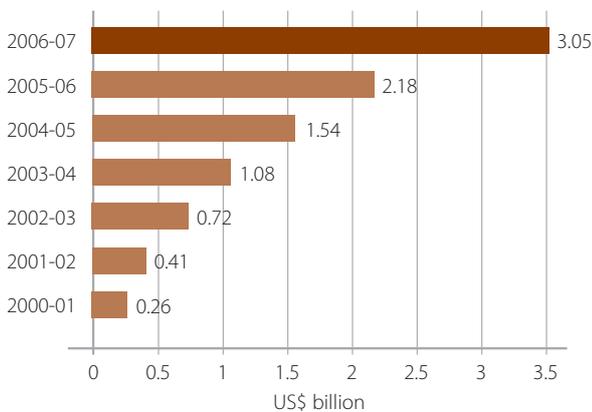
KPO MARKET SIZE

Although the KPO industry evolved during the mid 1990s in India, its growth phase only started after 2000-01. According to Evalueserve, during 2000-01, the KPO industry in India consisted of only 9,000 billable professionals who generated total revenues of US\$ 260 million. However, by

2006-07, the number of billable professionals had increased to approximately 75,000 employees, who were responsible for generating revenues of US\$ 3.05 billion. Thus, during the 2001-07 period, the industry witnessed a CAGR of 51 per cent in revenues and 43 per cent in the number of billable professionals.

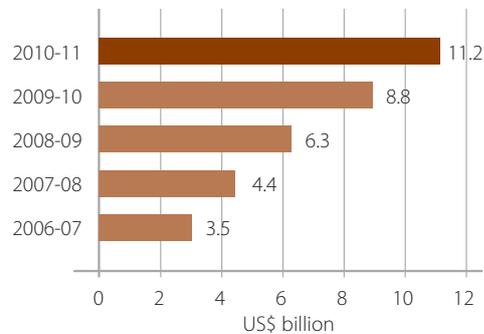
By 2010-11, the contribution of the Indian KPO sector to the global KPO industry will be in the range of 65-70 per cent.

Indian KPO Industry - Market Size (2001-07)



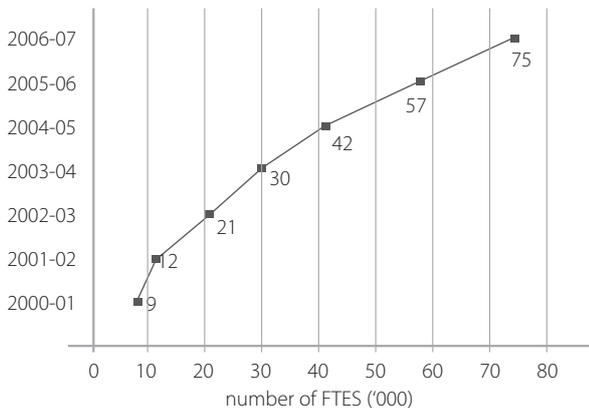
Source: Evalueserve; FTE: Full time employee

Indian KPO Industry - Expected Market Size (2007-2011)



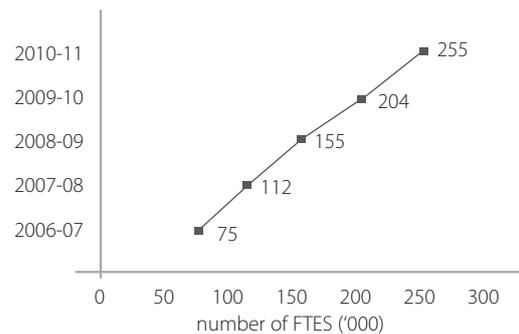
Source: Evalueserve; FTE: Full time employee

Indian KPO Industry - Number of FTEs Involved (2001-07)



Source: Evalueserve; FTE: Full time employee

Indian KPO Industry - Number of FTEs Involved (2007-11)



Source: Evalueserve; FTE: Full time employee

It is estimated that by 2010-11, the Indian KPO market will be valued at approximately US\$ 11-12 billion. According to recent forecasts by Evalueserve, the industry will witness a CAGR at 38 per cent in revenue and 36 per cent in the number of billable professionals during the next four years.

KPO SERVICES SEGMENT'S CONTRIBUTION TO THE KPO MARKET

Data management, search and analytics services and contract research services form the largest segments in the KPO industry. The legal services and intellectual property outsourcing services segment is expected to gain momentum in the near future. A substantial growth is also predicted in various segments such as HR research and analytics, marketing and sales support, contract research and biotech, data management and search and analytics.

Growth in India KPO Market Size by Services Segments: 2006-11 (US\$ million)		
	2006-07	2010-11
Data Management, Search and Analytics	590	2,510
Contract Research and Biotech	570	2,500
Engineering Design	315	1,000
Remote Education and Publishing	290	1,000
Animation and Gaming Services	245	950
Banking, Securities and Insurance Research	185	600
MR and Competitive Intelligence	175	450
Scientific and Medical Content Publishing	165	450
Business and Consulting Research	125	450
Network Optimisation and Analytics	125	400
Legal Research and IP	95	360
Translation and Localisation	85	160
Remote Logistic Services and Procurement	40	150
HR Research and Analytics	25	120
Marketing and Sales Support	20	100
TOTAL	3,050	11,200

Source: Evalueserve

PROFESSIONALS EMPLOYED IN KPO SERVICE SEGMENTS

The growth in the number of KPO projects is indicative of an increasing demand for professionals. Currently, professionals are mainly absorbed in the contract research,

data management, search and analytics segments. By 2011, it is estimated that the animation and gaming services segment along with engineering design will employ a large number of professionals.

Growth in Number of Professionals - Indian KPO Market 2006-11		
	2006-07	2010-11
Data Management, Search and Analytics	15,000	60,000
Contract Research and Biotech	15,000	50,000
Remote Education and Publishing	9,000	25,000
Engineering Design	8,000	21,000
Animation and Gaming Services	7,000	22,500
MR and Competitive Intelligence	4,500	12,000
Banking, Securities and Insurance Research	3,500	12,000
Business and Consulting Research	3,200	11,000
Network Optimisation and Analytics	3,100	9,000
Legal Research and IP	2,500	12,000
Translation and Localisation	2,000	9,000
Remote Logistic Services and Procurement	1,100	4,000
HR Research and Analytics	600	2,500
Marketing and Sales Support	500	3,000
Scientific and Medical Content Publishing	400	2,000
TOTAL	75,400	255,000

Source: Evalueserve

The following are the three sectors that are set to register a substantial growth:

Banking, Securities and Insurance Research Services

This sector currently employs 3,500 billable professionals, out of which approximately 1,100 are involved in insurance research as well as in research related to risk management for credit card and capital leasing companies. The remaining 2,400 billable professionals help sell-side and buy-side analysts in bulge-bracket banks (e.g., Citigroup, Merrill Lynch, Morgan Stanley and JP Morgan), mid-tier M&A banks, independent research providers, hedge funds, mutual funds, pension funds and private equity groups. This sub-sector is expected to witness an increase in revenues from US\$ 185 million in 2006-07 to US\$ 600 million by 2010-11.

Contract Research Organisations and Bio-Pharmaceutical Services

As a result of the cost pressures involved in the research and

development of new drugs, biotech and pharmaceutical companies are outsourcing a major share of their clinical research trials to countries in Eastern Europe, India and China. Further, this sub-sector is expected to witness an increase in revenues from US\$ 570 million in 2006-07 to US\$ 2,500 million by 2010-11.

Data Management, Search and Analytics

This sector is expected to increase from US\$ 590 million in 2006-07 to US\$ 2,510 million by 2010-11. Within this sector, some verticals – banking, finance, securities and insurance; biotech, pharmaceuticals and healthcare; and wireless, wire-line and cable, oil and gas – are likely to witness a massive growth. Large data providers (e.g., Thomson Financial, Reuters and Standards & Poor) already have a considerable presence in India. Collecting and scrubbing data at fairly low costs while providing high-quality services seem to offer an irresistible proposition for other data providers also.

Emerging Trends

INDIAN COMPANIES EXPLORING EXPANSION OPPORTUNITIES OVERSEAS

Indian KPO companies are establishing offshore centres across the globe.

A large number of Indian companies are looking towards expanding their operations by setting up delivery centres across the globe. Indian players are targetting regions such as China, Latin America and Eastern Europe to set up new offshore locations. Some of the prominent reasons for this trend include the following:

- Clients are increasingly demanding localised services. Thus, Indian KPO vendors are exploring offshore locations where they can leverage the local talent and language capabilities.
- Operating in different geographies with varying time zones helps in offering 24*5 services, which acts as a substantial differentiator for any KPO player.

EXPANDING INTO TIER-II CITIES

KPO players are facing concerns related to high attrition rates and real estate prices. Moreover, the pressure to maintain profit margins is fuelled by an increased level of competition. To mitigate these challenges, KPO players are now turning to Tier-II cities such as Jaipur, Chandigarh and Pune, a trend that is expected to gain momentum in the near future.

PHASING OUT OF CAPTIVE CENTRES

Initial market dynamics had enabled large corporations to establish their captive centres in India. However, with the emergence of local vendors, captive centres are facing increasing competition. The third-party vendors are expected to surpass the competition offered by the captives by 2009-10, particularly in services domain and product development. The major reasons for this upcoming trend in the industry are increased costs, increased attrition, lack of integration and management support, and lesser flexibility in case of captives. Besides, increased level of services by the virtual captive centres and better management of security concerns by the third-party players have made them viable alternative to captive centres. The industry may also witness a shift in outsourcing work from captive centres to third-party players in the next few years.

MERGERS AND ACQUISITIONS

The high growth phase in the industry is expected to lead to increased M&A activity. Acquiring domain knowledge and new clients, and gaining market entry have been cited as the primary reasons for this trend. This strategy is likely to be highly beneficial for multi-service BPO companies planning to venture into the KPO domain. Since it will enable them to add high-end capabilities to their portfolios. e.g. EXL Services acquired Inductis in 2006-07, WNS acquired Marketics in 2006-07 and Evalueserve acquired Nitron in 2006-07.

India Advantage

COMPETITIVE POSITIONING OF INDIA AS AN OUTSOURCING DESTINATION

The gradual shift from BPO to KPO in some offshore countries is expected to change the dynamics of the work outsourced. Evalueserve predicts that several KPO opportunities are likely to be created.

India leads in KPO services. Countries such as the Philippines, Russia, Ukraine, Poland, Hungary, China and South Africa are fast catching up. Emerging KPO destinations have created a niche for themselves. The following table provides an indicative list of services that are being offered by KPOs.

KPO Segments	Country
Animation	Philippines, India, China
Engineering Services	Philippines, India
Content Development	India, Philippines
Financial Services	India, China
Healthcare	Russia, India
R&D	India, China, Russia
Legal	New Zealand, India
Pharma	India, Russia

For comparing the competitive positions of different countries with regard to KPO services, the following four parameters are considered:

Location Attractiveness for KPO Services

	Talent pool Availability	Cost Arbitrage	Infra-structure	Government Support
China	🟡	🟡	🟡	🟡
India	🟡	🟡	🟡	🟡
Philippines	🟡	🟡	🟡	🟡
Russia	🟡	🟡	🟡	🟡
Canada	🟡	🟡	🟡	🟡
Singapore	🟡	🟡	🟡	🟡
Malaysia	🟡	🟡	🟡	🟡

🟢 Extremely Good
🟡 Good
🟠 Average
🔴 Below Average

- Talent pool availability
- Cost Arbitrage
- Infrastructure
- Government Support

Factors Making India a Favourable Destination for KPO Services

India offers all the prerequisites necessary to execute KPO services, be it proactive government policies or a large talent pool of engineers, MBAs and PhDs. India has managed to replicate its success in IT outsourcing in the KPO industry as well. The following are the factors that make it the leading player in the global KPO market:

- Competitive labour cost coupled with quality services
- Large talent pool

Factors Enabling Advantage India in the KPO Services



Source: EVS Analysis

- English language skills
- Ideal time zone difference
- Proactive government policies
- Extensive experience in forging strong client relationships

COST ADVANTAGE

Cost arbitrage is the prime factor for the emergence of outsourcing. Cost savings of 40-70 per cent can be achieved by outsourcing/offshoring knowledge-intensive work. Similarly, the cost difference in data mining services is about 60-70 per cent.

Although the wage levels in India are increasing, the country continues to enjoy a substantial differential as compared to the developed countries. This is evident from the following:

- Writing a patent application in the US is expensive – A typical application costs between US\$ 10,000 and US\$ 15,000 for drafting and filing with the United States Patent and Trademark Office (USPTO). However, if this process is outsourced, an intellectual property specialist at a KPO vendor can produce a preliminary draft of the patent application and can get it reviewed and modified by a registered US patent attorney, who ultimately files it with the USPTO. This can result in cost savings of up to 50 per cent.
- In the R&D area, pharmaceutical companies utilise the services offered by contract research organisations. Destinations such as India offer significant cost advantages, often as much as 40-60 per cent.
- In the area of data mining and analytics, destinations such as Russia and India are ideal because they offer a large pool of engineers and PhDs at substantially lower costs. The cost difference between a PhD in Sciences and Engineering in the US and India can range between US\$ 60,000 and US\$ 80,000.

LARGE TALENT POOL

As outlined earlier, since KPO services focus on processes with a high degree of complexity, highly skilled professionals with a strong educational background and sound experience in a particular domain, technology, industry or specialty are required. This factor places India in a favourable position as it has a large educational ecosystem, which helps in creating a

substantial base of professionals. Indian engineering colleges produce large number of graduates. The higher-education institutes have an annual intake of approximately 560,000 technical graduates, 2.3 million non-technical graduates and more than 300,000 postgraduates in 2006-07. The KPO industry can therefore leverage the wide range of knowledge workers to provide superior-quality services.

Further, developed economies such as the US, UK, and Western European countries are facing a shortage of trained professionals in certain knowledge-intensive sectors such as R&D, animation, IT, financial risk management, etc. One of the mitigation mechanisms available to them is to outsource their work to a KPO. It is here that India enjoys a competitive edge over other KPO destinations, with the large and highly skilled talent pool that it offers.

ENGLISH LANGUAGE SKILLS

India has the largest English-speaking population in the world, with more than 350 million people speaking this language. In 2004, India overtook the US and the UK in terms of the English-speaking population. Knowledge of the English language is a key differentiator for India when compared to other outsourcing destinations such as China and Russia.

IDEAL TIME ZONE DIFFERENCE

India's geographic location also adds to its advantage. A 12-hour difference between the Indian and the US time zones helps Indian players to provide extended business services to clients. This leads to favourable situation, which enables better workflow management.

PROACTIVE GOVERNMENT POLICIES

The Indian Government has been proactive in providing support to the KPO industry. The liberalisation of policies, establishing software technology parks, providing tax benefits, exemptions on duties, etc., are some of the prominent benefits that the Government extends to the KPO industry. Moreover, new policies and guidelines are issued involving and in consultation with industry experts to be able to facilitate the operating business environment.

EXTENSIVE EXPERIENCE IN FORGING STRONG CLIENT RELATIONSHIPS

In KPO, a client is involved in the entire execution process. Thus, a robust client relationship is the key to the success of KPO services. In addition, a strong relationship ensures quality delivery by integrating the client's know-how throughout the process. Indian KPO players were quick to realise these points and have imbibed the best practices involved in building client relationships.

Major KPO Hubs in India

KPO centres have flourished predominantly in those areas which already house IT centres mainly because the skill-set requirements for both industries are similar. The centres that have developed as KPO hubs in India include Mumbai, Hyderabad, Delhi NCR, Pune, Bangalore and Chennai. Being the financial capital of India, Mumbai has attracted a number of KPO players providing knowledge services in the investment research domain.



KPO vendors use various parameters to select a location for setting up a centre in India, which include the following:

- Infrastructure: Roads and IT infrastructure
- Manpower: Availability of skilled talent and presence of educational institutions
- Expenses: Cost of employees and operations

On the basis of these parameters, the following figure compares various locations in India:

Ranking of different Cities on listed Parameters

Infrastructure	Cost	Manpower
Delhi NCR	Pune	Mumbai
Mumbai	Delhi NCR	Delhi NCR
Bangalore	Hyderabad	Hyderabad
Hyderabad	Chennai	Chennai
Chennai	Bangalore	Pune
Pune	Mumbai	Bangalore

Source : EVS Analysis

INDIAN KPO PLAYERS

The Indian KPO industry comprises four different types of vendors on the basis of their operations or the initiation of operations. The following are the different categories of vendors:

- BPO companies venturing into the KPO services domain (eg., Progeon, WNS)
- Individual companies providing specialised services locally and globally; captive centres included in this segment (eg., Evalueserve)
- Highly specialised groups of individuals offering specialised services to global markets (eg., the Pharma research team)
- Individuals residing at one place providing their services inputs to a process elsewhere (eg., a mathematics tutor)

Some of the major KPO players in India are listed below:

List of KPO Players in India

KPO Captives	Focussed KPO Players	'BPO Adding KPO' Vendors
Goldman Sachs	Evalueserve	Progeon
Morgan Stanley	Amba Research	Genpact
JP Morgan	Irevna	WNS
UBS	Copal Partners	Nipuna
Deutsche Bank	Aranca	Office tiger
SAP	Lexadigm	EXL
GE	IP Pro	Wipro
Intellevagte	Roc Search	Accenture
IBM	Market Rx	Mphasis
Data Monitor	Inductis	Accenture

Source : EVS Analysis

Exchange Rate Used

Year	Exchange Rate (INR/US\$)
2000-01	45.75
2001-02	47.73
2002-03	48.42
2003-04	45.95
2004-05	44.87
2005-06	44.09
2006-07	45.11

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