

# KPO: India's new knowledge business

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Patricia Hill lives in Fremont, Calif., and the mother of 14-year old Clark who is preparing to take his math challenge test soon was a harried parent until recently. Clark would often come up to her seeking help for math problems, some of which were too difficult for her to solve. She had almost decided to get a math tutor for Clark when she learnt about TutorVista Inc., an online tutoring outfit based out of India that provides for homework help, regular tutoring or exam help to students around the world including students from kindergarten to 12th grade.

"They offered a free trial and I tried it first," says Patricia. "It was done over the Internet with Clark and the tutor talking and using a whiteboard for writing. It was as if the tutor was right next to Clark, and right after the trial, I signed them up for unlimited tutoring for \$100 a month. I found it to be the great deal compared to the \$40 per hour that I would have had to pay to a tutor in Fremont."

"I thought only big organizations can take advantage of India's outsourcing, but now, so can I," added Patricia. But mention the phrase business process outsourcing (BPO) to K.Ganesh, the founder of TutorVista and he frowns. He thinks TutorVista is a "new generation education company" that is challenging the "cyber coolie" label given to the Indian BPO sector and is offering a more specialized outsourcing service called KPO -- or knowledge process outsourcing.

Ganesh sees a serious shortage of "quality" teachers in the United States and predicts flow of big-time Federal funds in online education. "The potential of KPO is huge," he says.

Indeed, even as the hype surrounding India's BPO sector continues, there is undoubtedly a realization among BPO firms in India that low value-added back office outsourcing work, like voice-based call centers or medical transcription, will not continue to fetch the profit margins they had hoped for. High staff attrition that is leading to wage hikes, coupled with over-supply of BPO companies in the country has led to downward pricing pressure, so to remain profitable like the earlier days, India's BPO companies have to start offering niche services that requires vertical domain expertise.

"India could emerge as a global KPO hub as the business requires specialized knowledge in respective verticals and the country's engineering and technical institutes are geared to address the manpower demand," said a study by the Confederation of Indian Industry (CII), an industry group.

More importantly, Evaluateserve, an outsourcing provider for market research and intellectual property, says that India is all set to capture the largest chunk of the global KPO pie. "By 2010, the size of the KPO industry would be worth \$17 billion globally, and India is slated capture more than 70 percent (that is about \$12 billion) of the global market that represents 40 percent of the country's BPO revenues," it said.

But what is KPO and how does it differ from BPO? KPO involves offshoring of knowledge intensive business processes that require specialized expertise, thus delivering high value to organizations by providing business expertise. Examples of KPO are online teaching, patent filing, legal and insurance claims processing, valuation research, investment research, media content supply and the likes. BPO on the other hand involves a pre-defined way to handle a business process which is taught to agents or employees. BPO services normally include transaction processing, setting up a bank account, selling an insurance policy, technical support, voice and email-based support.

KPO services can enable enterprises to reduce design-to-market lead times; manage critical hardware efficiently; provide research on markets, competitions, products and services; enhance organization effectiveness in business administration all of which help in dealing with rapidly evolving business scenarios.

Evalueserve adds that the maximum share of value creation, which comes in the form of better quality, lower costs and wider coverage, goes to the clients, which in turn increase their competitiveness. The second chunk of the value creation pie goes to the KPO vendors and employees working in these KPO outfits. KPO, thus presents a huge opportunity for India in terms of employment generation and wealth creation, which will lead to an increased number of jobs in the KPO sector from the current 25,000 to more than 250,000 by 2010.

Evalueserve added that revenue from KPO was at least twice that of BPO - \$22 per hour compared to \$8 to \$11 per hour - while capital expenditure per seat was about the same at \$6,000 to \$8,000.

But India is not the only country for KPO. Evalueserve says competing with India are countries like Russia, China, the Czech Republic, Ireland and Israel. And although none of these countries can boast of manpower resources and talent levels as high as India, China could grab a bigger share of "culturally similar" markets like Japan and Korea. Russia, with its third-largest army of engineers and doctors in the world, could well be the forerunner in capturing the European KPO market, while like its BPO sector; India could dominate the US market.

Nevertheless, according to National Association of Software Services Companies (NASSCOM), the IT industry lobby, online tutoring forms just a small market of India's KPO business; the financial process outsourcing is in fact witnessing explosive growth within the Indian KPO sector. "Already the top 12 investment banks of the world have captive

operations doing high-end analysis work in India, employing 1,200 people that is expected to go up to about 6000 in the next few years," says Alok Agarwal, founder and chairman of Evalueserve.

Other areas with significant potential for KPO are healthcare, drugs research and clinical trials, biotech, legal support, design and development, R&D, and animation and graphics in the entertainment sectors.

Still, despite the opportunities KPO presents, the Indian outsourcing industry's shift to the "more value-added" KPO, is not happening rapidly as some of the major Indian BPO companies have been slow to react.

For instance, in the last quarterly conference call, Wipro CEO Azim Premji admitted that Wipro had been slow in restructuring its BPO business, but is now finally moving its focus away from voice-based activities.

Moreover, about 100 Indian call-center companies have disappeared over the last three years, which wouldn't have happened had they moved to KPO in due time.

Besides, there are other problems that need to be sorted out as well. "Although large manpower resource is a big strength for the country, most of the talent is raw talent and has to be trained initially," says Rajen Yadav, a human resource consultant in the IT domain. "Getting the right people at the right price may not be easy in KPO just yet."

"But the biggest problem," says Evalueserve "is the issue of client's comfort regarding offshoring. Not many are comfortable with data security and confidentiality."

Admittedly, although in terms of global certifications and standards,

Indian BPOs claim that they are at par with the rest of the world, but the fact is, regulations on BPO and KPO are still lacking in the country.

"The country's KPO clients are still exposed to risks such as compliance and, regulatory and law suits risks," said Evalueserve. "It will not be long when Indian BPO and KPO sectors will have to catch up these issues as well."

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