

BPO

Knowledge process outsourcing

Knowledge process outsourcing (KPO) is hailed by many as the exciting progression of BPO into more specialist arenas. According to the TPI Index 2011, the global KPO TCV at the end of last year was a record breaking \$1.8bn and the majority of KPO services were found in financial research, market research, life sciences research, legal research and analytics.

Due to the distinct nature of knowledge work and the dynamics of offshoring – knowledge processes are different from ITO and BPO. KPO is concerned with getting high-end, value-added work done by resources whose co-location with the end client is not necessary. The traditional offshoring destinations fit well with KPO where the expertise of a region is used, the effort is people-intensive, and the end product is arrived at through rigorous methodologies.

Big 2011 KPO contracts such as SourceHOV's agreement with 3M Health Information Systems and Syntel's partnership with SmartStream for auto-reconciliation of exchange traded derivatives, demonstrate the specific offshore expertise needed in KPO.

SourceHOV is one of the largest end-to-end business process services companies, providing healthcare, finance and accounting, e-content management, document lifecycle, presentation (information in court), and strategic consulting services across key verticals.

"Access to qualified professionals is one of the most critical concerns facing our clients. SourceHOV has a proven track record of supporting clients with highly skilled and knowledgeable staff when and where they're needed most,"

said JaeLynn Williams, Senior Vice President, Marketing and Client Operations, 3M Health Information Systems.

Satish Joshi, Executive Vice President and Global Head, Technology and Innovation, Patni Computer Systems, said: "The knowledge-intensive and judgment-based nature of KPO skills involve a higher degree of complexity and require specialist domain knowledge," he says. "Examples of these kind of skills are found in doctors, nurses, actuaries, coders, pharmacists, lawyers, and architects. Such skills are short in supply or extremely expensive in the US and Europe."

As KPO skillsets involve specialised education, domain expertise along with analysis and decision-making as opposed to the more process driven and rule-based BPO, they also need a substantial investment. In India, KPO salaries could be 25-50% higher than those offered to BPO professionals.

Throughout the last couple of years, a number of other viable KPO sourcing hubs have emerged, says a report from independent technology analyst firm Ovum. The potential KPO delivery locations, including China, the Philippines and Sri Lanka, are unlikely to challenge India's dominant position in the market, but they have enabled many vendors to pursue a multi-shore strategy, it said.

Ed Thomas, Ovum analyst and author of the report, commented: "Being able to deliver services from multiple locations means providers can offer existing clients greater flexibility and minimise the risks associated with having all their operations in one facility, while at the same time tapping into fresh labour pools".

The KPO industry is maturing and the range of services being provided has expanded as the market has developed throughout 2011 and will continue to do so.

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Impact of the UK economy on BPO and outsourcing adoption in 2012

Recessions are frequently said to drive outsourcing but the reality is more complicated than this. For example 2009 was a poor year for BPO activity in the U.K., while 2011, arguably a healthier and less dramatic year for most businesses, has just seen a record high for BPO contract activity and a low in IT outsourcing activity. By John Willmott, MD, NelsonHall

So what is really driving these patterns of outsourcing adoption and how should buyers and vendors react in the likely economic environment of 2012?

The conditions that predominantly drive BPO adoption by organisations are:

A predictable business environment

Contrary to expectation a rapidly deteriorating business environment is a major inhibitor of BPO adoption, as indeed can be a period of rapid short-term growth. What organisations need is a predictable planning horizon. BPO is typically going to require 6-12 months for vendor appointment, due diligence, and contractual negotiations, and a further six months to transition. Short-term crises however, whether up or down, need to be handled more quickly than this, typically within three months. So the role of BPO is as a medium-term solution with medium- to long-term impact. It's part of the long-term transformation of the cost base not a short-term fix. Any rapid downturn in the U.K. economy in 2012 will almost certainly inhibit the short-term adoption of BPO as management attention returns to crisis management. On the other hand the U.K. economy showing consistent but predictable GDP growth of less than 1% will almost certainly continue to stimulate BPO adoption.

Certainty of outcome

Another factor that is crucial for adoption of BPO is certainty of outcome. In the present economic circumstances, organisations need to be sure that will achieve the 20% or even 50% or more of cost savings promised and that they will achieve this within the promised time horizon. In general BPO time horizons and contract lengths are shortening with organisations looking for a quick and certain return.

If there is any doubt about the certainty of outcome or a high level of perceived risk then organisations will not go ahead.

Minimal up-front client investment

Similarly organisations are increasingly unwilling to make major investments, especially as these also threaten the time to break-even and their ability to achieve quick wins. The current environment favours quick wins over long-term payback.

However, our conclusion is that 2012 should be another healthy year for BPO provided the business environment remains stable, whether low growth or modest recession,

and that the BPO vendors can demonstrate a level of delivery maturity and certainty of outcome.

So what are the key characteristics that organisations need to evaluate to judge their potential service providers' ability to deliver certainty of outcome, which is the key determinant of whether organisations will adopt BPO?

Firstly potential suppliers need to be able to demonstrate their understanding of the key levers for achieving process excellence, quantify the potential business outcome and impact of process changes within your organisation, and identify the roadmap for getting there. In particular, this involves:

- Being able to offer a view of where your organisation stands in terms of process excellence relative to its peers
- Being able to substantiate this view by identifying the process levers that need to be addressed to achieve process excellence and quantify the change in business outcomes (not SLAs) that would result from implementing these process changes
- Providing a roadmap with costs and timescales for implementing these process changes.

Secondly they need to be able to demonstrate specialist IP that will enhance their ability to deliver and give them a competitive edge over other potential suppliers.

In particular, the provider should have technology tools for process & agent management and tools that address the weak points in existing client tools and technologies, such as existing ERP systems. Your existing core systems will typically remain in place, and in the current environment you may not be able to afford to replace them, but they need almost certainly to be supplemented with additional tools to fix process shortenings, to provide support for new capabilities, and to provide improved process and business information.

So 2012 should be another healthy year for BPO but what impact is cloud having on IT outsourcing? In 2012, it is likely to continue to inhibit the adoption of large-scale IT infrastructure management contracts, since organisations are still typically working out what cloud means to them. Typically organisations are still not ready to adopt out-and-out public cloud for production applications, with the preferred approach being a gradual move towards hybrid cloud. Overall the promise offered by cloud of a dramatic change in the economics of IT infrastructure services will continue to inhibit the adoption of major IT infrastructure management outsourcing contracts, since organisations fear the uncertainty of being locked into a legacy and high-cost operating environment at a time of potential change.

Nonetheless, it is likely to be a good year for niche adoption of cloud within outsourcing with email and collaborative applications continuing to move to cloud and SaaS being adopted for specialist and edge applications.