

Differentiation mantra for KPOs

KPO service providers that raise their game can create significant differentiation and make the most of the next growth wave.



G. V. Mani

The knowledge process outsourcing (KPO) industry is at the cusp of momentous changes. The turmoil in global financial markets and the proven concept of research offshoring may bring substantial rewards and a greater role for the industry as it evolves along with the financial services industry. But KPO services are becoming commoditised, and those firms that differentiate themselves by nurturing talent, refining processes and innovating are going to lead the way into the next phase.

From a negligible market size at the turn of the century, KPOs, which provide sophisticated outsourcing services with a highly-skilled, offshore workforce, have become a global force today.

The Indian KPO market is expected to be worth about \$10 billion by 2010. The financial services KPO sector alone is estimated to be about \$5 billion by that time.

Over the last decade, KPO growth has been driven by the robustness of the global delivery model and the shift in the objective from cost benefits to scale and efficiency.

But even with the strides KPOs have made with technology, process and personnel, the industry depends on relatively standard analytics and common technology infrastructure platforms for delivery. Further, increased availability of talent and high attrition to competitors continue to hold the industry back.

SHIFTING FOCUS

Research offshoring is poised to move to the next level as the focus shifts from cost arbitrage to mining value from intellectual arbitrage. Cost-savings, scale and time efficiencies, which all KPOs promise and deliver, will become secondary considerations.

Relationship orientation and progressive methods to add to client value will assume critical proportions. Essentially, successful offshoring firms will look to provide services clients did not think they could provide.

Participants in the industry that stand to gain the most will provide those services through new processes and innovative use of diverse skill-sets.

KPOs, in particular those in the financial services space, thrive on client relationships. The challenges posed by competition and commoditisation could be converted into opportunities to carve deeper niches that can include assisting in the development of new products and supporting new trading ideas.

There are three key differentiation factors that will facilitate relationship orientation with clients and distinguish a firm from its peers.

Employer branding

Firms need to be perceived as strong brands that nurture talent with diverse research and managerial skills. A strong employer brand creates a virtuous cycle that ensures client satisfaction.

Building that brand means finding and developing the right employee and creating a unique career path, instead of plodding along a pre-ordained course.

Attracting talent is squarely dependent on how strong the brand pull is. The prospective workforce is influenced by the strength of the talent brand. And a strong brand also helps in retention of talent and in delivering value to clients —this, in turn, strengthens the brand and enhances the ability to attract talent.

Active investment in nurturing managerial talent is also essential to maintain, renew and sustain the brand. Attracting and retaining high quality managerial talent is critical in ensuring timely and quality delivery, quick ramp-up to meet often-changing client requirements, and ability to provide breadth of services.

Quality orientation should start with the processes of recruitment, training and staffing. That will feed into delivery, which, when managed through well-defined processes, can lead to client satisfaction.

Robust processes and strict adherence to such processes help engage both employees and customers — the two constituencies of a KPO.

Similarly, continuous delivery of quality services, accomplished through process orientation, is the key to client engagement. Breach of such processes melts control over output quality.

In contrast to captive units, KPOs, which are run as profit centres, emphasise benchmarking against the best management and operational processes, including workflow, managerial processes, and co-ordination among delivery centres.

With a well-defined recruitment policy and structured training modules covering financial modelling to cross-cultural communication, employees are trained to deliver the best possible output in the shortest possible time. Further, process audits at regular intervals ensure adherence to set processes and monitor the quality of delivery.

A strong employer brand and process orientation will need to be converted into a lead through innovation. Incremental improvements will not have the same effect as radical innovation, which can have a profound impact on renewing the brand, redefining the game and expanding the opportunities for these firms.

Innovation

With the focus of the global KPO market on intellectual arbitrage, emphasis on innovation is essential to prevent commoditisation of KPO services.

Innovative practices such as the marriage of software talent with financial skills fundamentally help high-end KPO firms enhance productivity and have a high impact on clients, creating loyalty.

Innovation is essential to keep pace with changing client requirements. An exploratory study of an industry, for instance, can graduate into a consultancy assignment.

Challenging times force industries to re-assess their business models and, often, only the best companies thrive in such a situation.

At the Crossroads

The Indian IT industry was at similar crossroads in 2000, when it was haunted by the spectre of falling demand and tight competition from other locations with low-cost and highly educated workforces, triggered by post-Y2K concerns. The technology bust, however, restructured the IT industry and made scarce skills all the more important than the ubiquitous ones, that had essentially become commoditised. Now, the KPO industry is facing a similar predicament.

The availability of quality service skills and investment in exemplary managerial talent that helped the IT industry surge ahead can drive growth for high-end KPOs, too.

KPO is a complex work system, characterised by non-routine, judgment-based decision-making. Service providers that change their game can create significant competitive differentiation, which will enable them to make the most of the next growth wave.

(The author is Senior Director, Irevna, a division of Crisil. The views expressed are his own.
bfeedback@thehindu.co.in)