Where do we go next?

The Way Ahead

Grim economic outlook, mounting expectations, bigger challenges... and few lessons to be learnt

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Knowledge Services Will be Most Important in 2012 Growth Strategies

The key will be the ability to understand and stay ahead of buyer demands.

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- Genpact announced its plans to acquire US based EmPower Research, which offers social and traditional media monitoring and measurement, event impact research, brand tracking and data management. Its clientele spans across PR agencies, technology firms, pharmaceutical and consumer packaged goods (CPG) companies. This is likely to help them cross sell services and will add expertise to their Smart Decision Services business.
• EXLService Holdings, post its acquisition of Trumbull Services – a specialized service provider to the insurance industry, is now looking at enhancing the existing capabilities of Trumbull’s SubroSource platform by investing in data analytics.

As Information Technology (IT) and business process outsourcing (BPO) companies realign their growth strategies to meet changing buyer demands, many have realized the importance of expanding their product and service lines to include knowledge services (or knowledge process outsourcing – KPO). The examples above are indicative of a growing trend among the IT and BPO companies to focus on exploring lateral growth even as they build on existing capabilities and strengths. This reflects a shift where providers need to build knowledge based capabilities as opposed to process capabilities.

**The Synergies and Benefits are Too Strong to Ignore**

Now that cost savings due to offshoring and simple process optimization are done, buyers are seeking more value. Their expectations from service providers have moved beyond traditional processes, e.g., call analytics along with call center services to improve hit rates. They want service providers to contribute in ways that will impact their business.

To cater to this evolution in buyer demand, service providers are making efforts to leverage existing client relationships and expand in service areas where they are already present. When Accenture agreed to acquire Zenta, a provider of residential and commercial mortgage processing services in the United States in August 2011, Terry Moore, global managing director of Accenture Credit Services said in the press release, “In the residential mortgage business, low customer satisfaction, rising fulfillment costs, and falling pull-through rates -- coupled with slower refinancing and purchase activity -- are undercutting

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profitability. On the servicing side, regulatory changes are forcing operational transformation… This acquisition will help our clients address these challenges by combining Zenta’s resources and expertise in mortgage processing with Accenture’s long track record helping financial institutions design and execute complex, large-scale business transformations. Zenta’s white-glove approach to mortgage processing will serve our clients well.”

The other obvious benefits are higher billing rates and the potential move up the value chain. Many suppliers achieve this by acquiring capabilities in areas where they predict a definite demand growth. As Genpact stated in its press release post its acquisition of Symphony Marketing Solutions (SMS), “Genpact was one of the first companies to offer high-end analytics services from delivery centers in India and today is one of the largest global providers of the full spectrum of analytics services. The acquisition of SMS expands Genpact’s scale and depth in the retail, pharmaceutical and consumer packaged goods industries and reinforces Genpact’s leadership position in the knowledge process outsourcing industry.”

Many other instances of this phenomenon already gaining significant traction were visible in 2011. Infosys BPO, FirstSource, TCS BPO, are just some examples among a growing breed of companies looking to strengthen their presence in various knowledge services such as legal process outsourcing, publishing outsourcing, analytics etc.

**NEW OUTSOURCING DYNAMICS TO IMPACT THE INDUSTRY**

The other important aspect of this trend is its three-way impact on the industry. Benefits to the buyers are set to increase with more providers to choose from. It will however require in-depth due diligence to ensure that they work with the best in the industry.
The provider map that has many niche knowledge process outsourcing (KPO) providers and IT/BPO companies will witness a huge impact. A small to mid-sized niche KPO can expect tremendous increase in competition. The competition may not necessarily be characterized by experience, but will be from companies that excel in processes and scale, and boast strong customer relationships in IT or BPO. Undifferentiated KPOs may find survival difficult and may look for exit opportunities. For those that want to maintain their existence, the one way to do it would be to move up the value chain, and undertake highly specialized work. Discerning buyers are likely to recognize them for their capabilities and pay higher rates for services.

However it is not going to be all that easy for the IT/BPO service providers, despite the obvious scale and brand advantages. Buyers of many knowledge services tend to be small and specialized (e.g., law firms, market research companies) and may not be willing to work with gigantic providers. Many highly qualified professionals such as lawyers, Chartered accountants may also have inhibitions about working in BPOs.

The future definitely looks interesting. Small undifferentiated KPOs as well as BPOs who rush in blindly are both going to be in trouble. 2011 has been the start of a dramatic shift in the structure of the industry and clear winners and losers will emerge in the next five years. The key will be their ability to understand and stay ahead of buyer demands. 

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