

Importance of Outsourcing for Business Growth

Improving maturity of Indian Entrepreneurs for outsourcing of KPO non-core support services

Outsourcing can be defined as the system of collaborating with an external organization and assigning that organization to carry out some of your business roles. Outsourcing gives organizations access to high-quality services at lower operating costs. The outsourcing industry has been extensively researched in the past decade. Over the past five years, a new form of outsourcing has become popular and promises, as BPO once did, huge growth and profit potential.

The most commonly-outsourced streams of business include:

- IT outsourcing
- Legal outsourcing
- Content Development
- Web Design and Maintenance
- Recruitment
- Logistics
- Manufacturing
- Technical/Customer Support

The flat economy forced many companies into huge layoffs and, subsequently, outsourced functions that were better kept in-house. Wise outsourcing, however, can provide a number of long-term benefits:

- **Controls capital costs:** Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business and allows you to avoid large expenditure in the early stages of your business.
- **Increases efficiency:** Companies that do everything themselves have much higher research, development, marketing, and distribution expenses, all of which must be passed on to customers. An outside provider's cost structure and economy of scale can give your firm an important competitive advantage.
- **Reduces labour costs:** Hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don't always live up to your expectations. Outsourcing lets you focus your human resources where you need them most.
- **Starts new projects quickly:** A good outsourcing firm has the resources to start a project right away. Handling the same project in-house might involve taking weeks or months to hire the right people, train them and provide the support they need. Besides, if a project requires major capital investments (such as building a series of distribution centres), the startup process can be even more difficult.
- **Focuses on your core business:** Every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities to work that serves the customer, and it can help managers set their priorities more clearly.
- **Levels the playing-field:** Most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency and expertise that large companies enjoy.
- **Reduces risk:** Every business investment carries a certain amount of risk. Markets, competition, government regulations, financial conditions, and technologies all change very quickly. Outsourcing providers assume and manage this risk for you, and they generally are much better at deciding how to avoid risk in their areas of expertise.

In another aspect, outsourcing can help a company focus on its core business, creating a competitive advantage within its industry. Subcontracting also affords the business the chance to get the best job possible from the people it hires. If the work is done in-house, company ties may interfere with the final product.

Knowledge Process Outsourcing (KPO) is a higher-end version of outsourcing of business processes that requires significant domain expertise. KPO refers to the outsourcing of high-end complex tasks and processes to specialized service providers. These include valuation research, investment research, patent filing, legal and insurance claims processing etc. KPO provides value to the client through domain expertise rather than process expertise.

The evolution of the KPO industry in India should be understood in the context of India’s strengths as a destination of and drivers of knowledge-based activities. Several analyses put low-cost advantage as one of the significant drivers of knowledge-based activities in India. India, at present, has the presence of a large pool of skilled professionals that match the quality of workforce available in developed countries, but at a significantly lower cost.

Industry estimates reveal that much of KPO’s growth is expected to come from small and medium sized entrepreneurs across the developed countries who are eyeing the potential of leveraging KPO to improve their global competitiveness. Countries that are involved in the KPO business include India, China, Philippines, Russia, Ireland, Israel, Mexico and Brazil. India is estimated to have a 29% share of the world’s KPO business.

The KPO sector in India is increasing gathering popularity as a promising sector that could generate foreign exchange for the country, while providing employment opportunities. The new KPO sector has embarked on higher-end knowledge-based domains such as legal processing, engineering processing, R & D processing etc. These units are competing with the introduction of newer innovative solutions in the knowledge domain addressing various international requirements. These include animation, publishing, web-services, content development, education, research, nanotechnology, management of IT infrastructure, application operations, IT security and maintenance.

After their success in India-based business, some of the Indian KPO units are also exploring foreign markets to set up their operations. Some firms are also strategically setting up marketing sales offices abroad to tap the business potential in various markets. Such strategies help Indian firms to specialize in domain knowledge to suit end-user requirements.

Knowledge process off-shoring is being recognized as the next big opportunity for India in the coming years, outpacing the success of business process outsourcing.

POPULAR VERTICALS OF KNOWLEDGE PROCESS OFFSHORING

Legal process	Engineering Process	Research and Analysis	R&D services	Information and data management	Financial services
Legal, Para-legal services drafting and review of contracts, legal research	Product design and development, chip design, embedded systems, animations & simulation	Investment research, market research, statistical and econometric modelling	Clinical research/ trials contract research for new products	Data warehousing, Data presentation, MIS reporting, Business Intelligence	Financial modelling and analysis

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