

Knowledge Process Outsourcing

Harnessing Intellectual Arbitrage to Capture Value

Introduction

BPO has become an accepted and widely adopted way of doing business, due to the success of early movers who opted to gain efficiencies through outsourcing non-core activities. In fact, more than 70% of businesses are outsourcing today – it is hard to compete without it. The logical question now becomes, “What’s next?” At Capgemini, we boil the question down to a few fundamental components, including:

- How does a firm continue to **drive productivity** and, increasingly important in challenging economic times, **realize greater cost savings**?

- How does a firm move beyond simply replacing on-shore transactional staff, and invest in supplementing knowledge workers with the **best strategic insights** the global labor market has to offer?

More and more businesses in every vertical are asking these very questions and many are finding the answer in what has been called Knowledge Process Outsourcing (KPO).



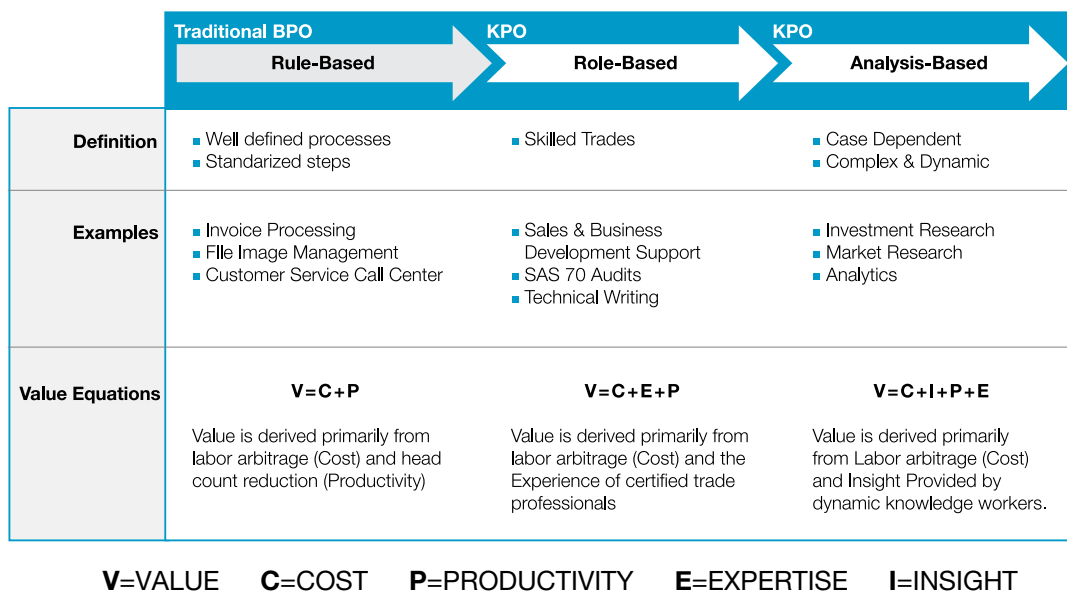
Thanks to KPO, firms will drive productivity and realize greater cost savings while harnessing the best strategic insights that the global market place has to offer.

When conceptualizing what KPO is, it is helpful to think about it as Business Process Outsourcing (BPO), however at a higher position in the intellectual value chain. While business processes are generally rule-based and repetitive, knowledge processes can be any activity which requires a deep level of domain knowledge and/or analytical thinking. To that end, the activities that can fall under the KPO umbrella are vast and will vary depending on a firm's individual business focus and industrial vertical. Over the last few decades, BPO has enabled firms to reduce operating costs and increase productivity. While the benefits of BPO are still very relevant, firms will continue to be pushed to operate more efficiently in the increasingly challenging global marketplace. Thanks to KPO, firms will drive productivity and realize greater cost savings while harnessing the best strategic insights that the global market place has to offer.

process from a rule-based activity to a role- or analysis-based activity. Rule-based activities are clearly-defined processes with standard steps and a predictable outcome. Typical rule-based activities include invoice processing, data entry and service level reporting. Role-based tasks are predicated on a higher level of understanding, experience and qualification. The tasks themselves are often less defined, more complex and require a greater level of independent thinking. Examples include radiologists reading x-rays, engineers maintaining operating manuals and CPA's managing general ledgers. Analysis-based activities are those complex and dynamic tasks generally associated with higher order corporate decisions and strategy. As such, these tasks are best carried out by individuals who exhibit strong critical thinking and decision-making skills in addition to their deep domain knowledge. Examples of these sorts of tasks include competitive analysis, market strategy and product portfolio analysis.

Figure1 illustrates how engaging domain knowledge and analytical thinking transforms the outsourced

Figure 1



As the equations in Figure 1 illustrate, the value of the activity increases as the domain knowledge and requirement for analytical thinking increases. In moving up this value chain, the activity begins to fall under the KPO umbrella. In so doing, the process emphasizes intellectual arbitrage and enables clients to unlock topline growth rather than simply save cost. It is also important to note that while the SOW-based work is primarily focused on the replacement of FTE's, moving up the value chain will require a combination of replacement of head count but also a stronger emphasis on supplementation of activities and collaboration with the onshore team.

As KPO services have matured, the boundaries between “outsourcable” and “non-outsourcable” activities have shifted significantly. Currently, the volume of both activities that require analytical skills and high domain



expertise is on the rise. It is estimated that the annual value of KPO will reach at least US\$10 billion by 2010[source]. The talent pool for these activities is being found in many areas of the globe. Rightshore, Capgemini's global delivery model, can help bring together our best talent from the right balance of onshore, nearshore and offshore locations and work with you as a

unified team. This balance enables us to deliver the optimum solution for your business needs.

The number of industries and professions to which KPO can be successfully applied is limited only by imagination. Figure 2 outlines some of the current KPO offerings and corresponding activities.

Figure 2

Financial Data Management	Research	Marketing & Communication
Managed RDM Services - Acquisition - Input/Validation - Distribution Data Integrity Services - Cleaning - Meta Data Management - Profiling Data Analysis Asset Classes Supported - Securities Data - Client & Counterparty Data - Pricing Data - Corporate Actions Anti Money Laundering Compliance	Market Analysis - Sizing - Forecasting - Feasibility Analysis - Entry Strategy Corporate Intelligence - Market - Competitor - Supplier - Customer Benchmarking - Competitive - Process - Functional Equity & Fixed Income	Web Content Management - Authoring and Collateral creation - Maintenance & Localization services - Publishing Web analytics and merchandising - Click stream analysis - Price monitoring - Product database management Editorial and Translation Services
Learning & Development	Engineering Services	Sales Support & Operations
Training & development management Content development and Instructional design Training & Certification co-ordination My Learning Administration	Technical Content Management - Manual Creation Maintenance - Illustrations - Wiring Diagrams CAD/CAM/CAE - Modeling - Detail Design, Analysis and Validation - Avionics Testing - NC Programming Methodixing - Process Sheet - Operation Sketch - Test Procedures Tooling - Assembly Tool Design; Jig & Fixture Design; Test RIG Design	Knowledge Management - Standard Bid Content - Credential Index - KM Communications. - Creation/ Maintenance of KM Portals - Bid Support - Proposal Authoring Competitive Intelligence - Account Research - Competitor Info Sales Hotline Sales Operations - Fin Reporting - Funnel Management - Report Analysis - Tech & Audit Support



Can Our Knowledge Be Outsourced?

Similar to the development of BPO over the last few years, we are now seeing a large increase in the companies engaging in KPO services. A growing number of businesses are looking for ways to cash in on the efficiencies gained through role- and analysis-based outsourcing. They are using these relatively new, yet increasingly mature and cost-effective resources to maintain their competitive edge.

If you are curious to learn whether or not KPO services may help keep your organization or business unit ahead of the curve, we can help you find the answers. You can begin investigating whether or not KPO services may be able to add value to your business by exploring the following questions.

- **Is it a priority for you to cut costs in the short-term?**
- **Are attractive strategic projects delayed because you don't have the capacity to explore them?**
- **Could divisions of your company benefit from customized and relevant insight to support sales, marketing, design, development, acquisition, etc. decisions?**
- **Are you challenged by the choice of whether to scale up internal knowledge staff (a cost that is fixed and hard to manage) or to hire consultants (who require close supervision and take time to learn your business)?**

- **Do your best knowledge workers have the support they need to grow your business?**
- **Is the value contribution of your top knowledge workers commensurate with their potential? If not, are they spending too much time on important but non-critical tasks?**
- **Does success in your business depend on staying informed of rapidly changing external forces (competitors, markets, customers, suppliers)?**

Conclusion

Many companies are searching for ways to reduce costs and remain competitive. Given the success that early adopters of KPO have attained in leveraging offshore resources for more core-aligned activities, there is a rapidly growing number of senior executives that are finding that competitive edge by harnessing KPO. Many have found that it was the logical and natural next step to take after engaging in more traditional BPO practices. Experience in outsourcing more routine activities is however, not a prerequisite to a successful KPO engagement. The only prerequisite is the ability to ask the tough questions in search of ways to stay ahead of the competition.

Case Studies

Reference Data Management

Business Issue	Solution	Benefits to the client
<ul style="list-style-type: none"> - A leading financial services provider specializing in procurement, processing and distribution of financial information was under tremendous market pressure to increase coverage of securities” - With the Financial Securities market growing 	<ul style="list-style-type: none"> - We have set up a team of 180 resources in Mumbai, Kolkata and Krakow with experience in financial data administration - The team supports four client subsidiaries US, UK, Germany and Singapore covering both simple and complex securities for Euro Bonds and US Markets - Multiple languages supported - A specialized core team has been set-up for supporting hybrid securities (most complex securities) 	<ul style="list-style-type: none"> - Top Line Benefit: 45% increase in data management capacity for the client to support key markets (UK, US, Germany and Singapore) - Bottom Line Benefit: Achieved 35% cost savings of data operations through offshoring and productivity gain. - As a value added service Capgemini helped create and set up a Hedge Fund database which will provide additional revenues through portfolio extension into a new data product

Business Research

Business Problem	Solution	Benefits to the client
<ul style="list-style-type: none"> - The client needed to understand all regulatory issues and business opportunities across four developing markets within the Telecom sector. 	<ul style="list-style-type: none"> - Detailed secondary research covering country dynamics, telecom industry overview, market sizing, technology and market trends identified - Based on secondary research inputs, in-depth interviews were conducted across key industry stakeholders to identify and validate opportunity areas across the telecom sector - Final inputs derived based on analysis of primary and secondary research 	<ul style="list-style-type: none"> - Detailed understanding of four select markets with regard to overall country dynamics and current telecom market - Current market size and future estimates of telecom business in select four countries estimated; giving the client a clear roadmap of how the telecom sector would evolve in future - Identifies specific business opportunities within 3 segments of telecom sector - Identified an addressable base of 54 Mn subscribers as an opportunity area for client to target by launching specific telecom services - High level estimates and ranges of EBITDA margins estimated on launch of telecom services in select markets - Service specific entry strategies identified for client to target customers within the select markets - Regulatory understanding based on which client to finalize mode of entry - Benchmarking of peer countries to understand current and future business

Web Content Management

Business Issue

- The client – A large North American computer equipment manufacturer wanted to improve quality and productivity over existing processes and reduce total cost of operations while improving control and work collaboratively with 3rd party outsourcing operations.

Solution

- The Capgemini team in Bangalore manually scrubs the Website for page and content quality.
- The IBM Rational Policy Tester is deployed to determine compliance with standards and user accessibility issues.
- Capgemini implemented a Work Management System to track completion of audits and issue closure.

Benefits to the client

- Bottom Line Benefit: Capgemini achieved costs savings of approximately 40% for the client
- Industrialization of processes which resulted in reduction in head count and effective cost savings of additional 10%

Sales & Marketing

Business Issue

- The client wanted to offshore some of the Sales & Marketing functions from their 30 different global locations to one nearshore/offshore location which met with their business requirements beyond costs in terms of language support, accurate & sophisticated demand & capacity planning and Industrialization of processes.

Solution

- Set up a centralized Sales and Marketing team which supported activities like, Bid support, Knowledge management, Creative services, Competitive Research and Sales reporting.
- Set up a Industrialized pool of resources with process Blue books
- Customer Feedback system put into place at every request level which was then reported back to the customer

Benefits to the client

- Top Line Benefit: The SLA driven model saw savings in duplication of work and industrialization to the tune of 40%
- Bottom Line Benefit: Industrialization has led to a reduction in head count of 7 resources for an initial team size of more than 100 resources
- Created a Dashboard available 24/7 to enable the customer to view online requests, feedback and valuable analysis of sales and marketing activities

Engineering Services - Technical Publications

BOMBARDIER

Business Issue

- A leading designer and manufacturer of aviation products wanted to reduce costs by 10-15% for all its aircraft programs, while improving service quality and reliability to customers by providing accurate aircraft and parts information

Solution

- Set-up a team of 150 people to support the on-going maintenance / updating of specific "Aircraft Technical Publication" manuals
- Perform specific activities related to authoring / writing changes, illustration changes and publishing

Benefits to the client

- Top Line Benefit: Improved service quality and reliability to customers by 30%
- Bottom Line Benefit: Efficiencies both in costs and operations of approximately 45%
- Transform technical publications services into revenue generating value added service





About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working - the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which

aims to get the right balance of the best talent from multiple location, working as one team to create and deliver the optimum solution for clients.

Present in more than 30 countries, Capgemini reported 2008 global revenues of EUR 8.7 billion and employs over 92,000 people worldwide.

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