



215en11

11

# OUTSOURCING

Outsourcing is any task, operation, job or process that could be performed by employees within your company, but is instead contracted to a other party for a significant period of time. Hiring a temporary employee while your secretary is on maternity leave is not outsourcing. In addition, the functions that are performed by the other party can be performed on-site or off-site. The most common model of outsourcing that is in the news today refers to jobs that are being sent over seas to countries like India or China. This is more commonly called off shoring. Examples include telephone call centers, tech-support and computer programming. Outsourcing has been around as long as work specialization has existed. Customized offshore outsourcing solutions have created the need of established Business Process Outsourcing (BPO) methodologies. Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a other party service provider. Usually, BPO is implemented as a cost-saving measure that a company requires to maintain its position in the marketplace. In this unit/lesson you, will study about the concept and importance of Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO).



## OBJECTIVES

After studying this unit, you will be able to:

- explain the concept of Business Process Outsourcing (BPO);
- explain the concept of Knowledge Process Outsourcing (KPO);
- describe the importance of BPO and KPO; and
- identify the difference between BPO and KPO.

**11.1 CONCEPT OF BUSINESS PROCESS OUTSOURCING**

Business process outsourcing (BPO) can be defined as the act of giving a other party responsibility of performing what would otherwise be an internal system or service. For instance, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system. Other common examples of BPO are call centres and payroll outsourcing. Typically, companies that are looking at business process outsourcing are hoping to achieve cost savings by handing over the work to a third-party that can take advantage of economies of scale by doing the same work for many companies. Or perhaps the cost savings can be achieved because labour costs are lower due to different costs of living in different countries.

BPO is often divided into two categories: back office outsourcing which includes internal business functions such as billing or purchasing, and front office outsourcing which includes customer-related services such as marketing or technical support.

BPO. It provides wide range of tactical, powerful, flexible tools which in turn helps in achieving the business objectives in a cost effective and efficient manner. To put it in simple words a BPO (business process outsourcing) is



a process in which a company delegates some of its business processes to a other party on payment of some fee by passing over total control of process to them. This in turn cuts the operational costs considerably resulting into huge profits.

BPO's are inclined to provide better customer satisfaction leading to customer retention, increased productivity, deal with competition effectively and in turn increase profitability. There are many kinds of work that can be outsourced to BPO's for e.g. Call/Help Centers, Medical Transcription, Billing, Payroll Processing, Data Entry, IT Services, Human Resources (HR) functions, etc. Due to the proximity of IT industry to BPO, this industry is also termed as ITES (Information Technology Enabled Service). But, BPO doesn't necessarily only provide IT Services.

BPO will be time and again, simply defined as, taking over non-critical business processes or a function of those processes, as well as the people and systems associated with them, in order to achieve service level improvements and cost

**Notes**



Notes

savings. It is useful in leveraging the process towards driven efficiency and achieving responsiveness, branding, customer relationships and organizational excellence.

## 11.2 ADVANTAGES OF BPO

An important aspect of business process outsourcing is its ability to free corporate executives from some of their day-to-day process management responsibilities. Once a process is successfully outsourced, they get more time to, explore new revenue generation activities, accelerate other projects, and focus on their customers.

By outsourcing their back office operations to third world countries, companies have the following advantages:

1. **Achieve cost reductions** – This is made possible through process improvements, reengineering, and use of technologies that reduce and bring administrative and other costs under control.
2. **Key in on company's main business** – With the day-to-day back office operations taken care of, the management is free to devote more time to building the company's core businesses
3. **Obtain outside expertise** – Rather than recruiting and training personnel, BPO ensures that domain experts from another company provide the needed guidance and skills.
4. **Meet constantly changing customer demands** – Many BPO vendors provide the management with flexible and scalable services to meet the customers' changing requirements, and to support company acquisitions, consolidations, and joint ventures.
5. **Achieving revenue increases** – By outsourcing non-core processes, companies can focus on increasing their sales and market share, develop new products, expand into new markets, and enhance customer service and satisfactions.

## 11.3 CONCEPT OF KNOWLEDGE PROCESS OUTSOURCING

KPO is a new phenomenon that is picking pace in India. It is "Knowledge Process Outsourcing". In simple words it is the upward shift of BPO in the value chain. Old BPO companies that used to provide basic backend or customer care support are moving up this value chain. "Unlike conventional BPO where the focus is on process expertise, in KPO, the focus is on knowledge expertise."

KPO involves off shoring of knowledge intensive business processes that require specialized domain expertise, thus delivering high value to organizations by providing business expertise rather than just process expertise.

It is being claimed that KPO is one step extension of Business Processing Outsourcing (BPO). BPO Industry is shaping into Knowledge Process Outsourcing because of its favourable advantageous and future scope. But, let us not treat it only a 'B' replaced by a 'K'. In fact, Knowledge process can be defined as high added value processes chain where the achievement of objectives is highly dependent on the skills, domain knowledge and experience of the people carrying out the activity. And when this activity gets outsourced a new business activity emerges, which is



generally known as Knowledge Process Outsourcing. KPO is involved in services like valuation and investment research, patent filing, legal and insurance etc. KPO can simply be explained as an off-shoring of knowledge concentrated business processes that needs specialized domain oriented expertise.

Knowledge process outsourcing (KPO) is the allocation of relatively high-level tasks to an outside organization or a different group (possibly in a different geographic location) within the same organization. Most low-level BPO jobs provide support for an organization's non core competencies and entry-level prerequisites are simply a command of English and basic computer skills. Knowledge process outsourcing jobs, in comparison, are typically integrated with an organization's core competencies. The jobs involve more complex tasks and may require an advanced degree and/or certification. Examples of KPO include accounting, market and legal research, Web design and content creation.

KPO and BPO are often conducted through off-shore outsourcing as corporations seeking the most value for the least money source projects to countries where wages are lower. Because KPO jobs may bring in more money to the economy as BPO, countries such as India are actively promoting development of that industry

### 11.4 ADVANTAGES OF KPO

1. **Accelerate Reengineering Benefits:** Reengineering aims for drastic improvements in critical measures of performance such as cost, service, quality and speed. But the need to increase efficiency comes into direct conflict with the need to invest in core business. As non-core internal functions are continually put on the back seat, systems become less



Notes



productive and less efficient. Therefore, by outsourcing a non-core function to a competent provider, the organization can realize the benefits of reengineering as an outsourcing benefit.

2. **Access to Top Class Capabilities:** Good and competent providers make extensive investments in technology, people, and methodologies. They acquire expertise by working with many clients facing similar challenges. This combination of specialization and expertise ensures the customers a competitive advantage and helps them avoid the cost of acquiring technology and training.
3. **Cash Infusion:** Outsourcing often involves the transfer of assets from customer to the provider. Equipment, vehicles, facilities, and licenses used in the current operations contain value and are sold to the vendor. The vendor uses these assets to provide services back to the client. Depending on value of the assets involved, the said sale may result in a significant cash payment to the customer. While selling these assets to the vendor, they are typically sold at book value. The book value normally is higher than the market value. In such cases, the difference between the two actually represents a credit line from the vendor to the client which is repaid in the form of price of the services over the life of the contract.
4. **Optimal use of resources:** Every organization has limitations to the resources available to it. Outsourcing allows an organization to redirect its resources, mostly human resources, from non core activities toward activities which serve the core need of customer. The organizations can redirect these human assets or at least the staff slots they represent for greater value adding activities. People whose energies are currently focused on internal activities can now be focused externally — on the customer.
5. **Solution to difficult problems:** Outsourcing is certainly one option for addressing the problem of managing difficult activities requiring core technical skills. It is essential to remember that outsourcing doesn't imply abdication of management responsibility nor does it work well as a solution to solve critical and suddenly erupting trouble of a company. However, a company can outsource only those difficult problems which it understands properly because if the organization doesn't understand its own requirements, it won't be able to communicate them to an outside provider.
6. **Focus on main business:** Outsourcing allows a company to focus on its core business by having operational non core functions assumed by an outside expert. Freed from devoting energy to these non core areas, the company can focus its resources on meeting its customers' needs.

**Notes**

7. **Best use of financial resources:** There is large amount of competition within most organizations for capital funds. The senior management is always in a fix to decide where to invest the capital funds. It is often difficult to justify non-core capital investments when core areas directly related to producing a product or providing a service compete for the same money. In this context outsourcing can reduce the need to invest capital funds in non-core business functions. Outsourcing can also improve certain financial measurements of the company by eliminating the need to show return on equity from capital investments in non core areas.
8. **Cost reduction:** Companies which attempt to do everything themselves generally incur higher research, development, marketing and deployment expenses, and all of these are passed on to the customer. The outsourcing can help a company to reduce its costs as an outside provider's lower cost structure, normally as a result of a greater economy of scale or other advantage based on specialization, reduces a company's operating costs and increases its competitive advantage.
9. **Minimum Risk:** Tremendous risks are associated with the investments made by the organizations. Markets, competition, financial conditions, Government Regulations and Technologies all change quickly. Further, it is very risky to keep up with these changes, especially those in which the next generation requires a significant investment. However, in outsourcing providers make investments on behalf of many clients, not just one and shared investment spreads risk, and significantly reduces the risk born by a single company.

### **11.5 DIFFERENCE BETWEEN KPO AND BPO**

**Knowledge Processing Outsourcing** industry is entirely different from Business processing outsourcing industry. KPO require expertise having domain knowledge. They are highly skilled and business experts as they handle more dexterous work which requires experience where as BPO industry is more about size, quantity and competence. The major difference is that BPO insist for labor and requires less skilled employees while KPO requires highly knowledgable employees in the area that is outsourced like lawyers, doctors, MBA and skilled engineers. The difference between KPO and BPO can also be analyzed on the bases of cost competitiveness, the salary of KPO employee is much higher than offered to the BPO employee as the people working for KPO are highly qualified such as Engineer, Doctor, CA, Lawyer etc. BPO provides services like customer care, technical support through voice processes, tele-marketing, sales, etc. whereas KPO provides in-depth knowledge, expertise



Notes

and analysis on complex areas like Legal Services, Business & Market Research, etc. BPO requires application, understanding of business and analytical bent of mind. Employees in BPO are not- so- qualified as it focuses on communication skills whereas KPO involves skill and expertise of knowledge workers with excellent educational background.



**INTEXT QUESTIONS 11.1**

- I. Fill in the blanks
  - i) The outsourcing of any product is relatively easy as the product normally has ....., ....., .....
  - ii) ..... is a process where customers send their work to be done at a different location?
  - iii) Converting the record of a company from paper to an electronic form is known as .....
  - iv) BPOs are typically divided into two categories .....
  
- II. State whether the following statements are **true** or **false**:
  - i) Under back office processes, BPO employees necessarily interact with the customer.
  - ii) Communication level is higher in back office processes as compared to calling processes
  - iii) In call centres, consultants usually have the history and the accounting information for the customers.
  - iv) Companies start outsourcing with the critical and essential processes.
  - v) Enhancing the productivity and accuracy of the business is the major reason for outsourcing.
  
- III. Multiple Choice Questions
  - i. Which of the following activity is not an advantage of KPO?
    - (a) Optimal use of resources
    - (b) Solution to different Problems
    - (c) Focus on main business
    - (d) Solution to different problems
  
  - ii. What is the full form of KPO?
    - (a) Knowledge Process Outsourcing
    - (b) Know Process Outsourcing
    - (c) Knowledge Pure Outsource
    - (d) Knowledge Process Overseas

- iii. Which of the following makes outsourcing of a product difficult as the product normally does not have?  
 (a) Shape (b) Size (c) Texture (d) Value

**Notes****WHAT YOU HAVE LEARNT**

Business process outsourcing (BPO) is the contracting of a specific business task, such as payroll, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace. Advantages of BPO are: cost reductions, attention on main business, outside expertise etc. KPO involves off shoring of knowledge intensive business processes that require specialized domain expertise, thus delivering high value to organizations by providing business expertise rather than just process expertise. Benefits of KPO are: Accelerate Reengineering Benefits, Access to Top Class Capabilities, manage difficult functions, focus on core business, make funds available for long term period etc. Main difference between the two is that BPO insist for labor and requires less skilled employees while KPO requires highly knowledge in the area that is outsourced like lawyers, doctors, MBA and skilled engineers.

**TERMINAL EXERCISE**

1. What do you understand by outsourcing?
2. Define Business Process Outsourcing. What are its advantages?
3. What is meant by Knowledge Process Outsourcing? Explain its advantages.
4. Distinguish between Business process outsourcing & Knowledge process outsourcing.

**ANSWER TO INTEXT QUESTIONS**

- I. i) Shape, Size, Texture, ii) Off shoring, iii) Data entry jobs, iv) Back office and front office outsourcing
- II. i) False, ii) False, iii) True, iv) False, v) True
- III. i) d, ii) a, iii) d

**ACTIVITIES FOR YOU**

- Visit a nearest BPO and a KPO center and find out various functions performed by each.
- Visit a company and find out the various functions outsourced by them.



## MODULE - IV

Maximum Marks

20

Hours of Studies

45

### Buying, Selling and Distribution

In today's business world mass production has necessitated the use of effective system of selling and distribution in the market. Modern technology has revolutionized the selling and distribution techniques and made today's business world a global market. These days goods and services produced in one country are readily available in other countries. This module has been designed to develop an understanding among the learners regarding the process of buying, selling and distribution of goods and services in the modern day business world, using the various methods of advertisement and sales promotion.

- Lesson 12 : Purchase and Sale**
- Lesson 13 : Channels of Distribution**
- Lesson 14 : Retail Trade**
- Lesson 15 : Advertising**
- Lesson 16 : Sales Promotion and Personal Selling**