



**Partnering for Performance:  
Knowledge Process Outsourcing**

January 2009

## Executive Summary

Historically considered as simply a "low-cost" alternative, changing market demands are ushering in a fundamental shift in the outsourcing paradigm. No longer merely a cost / labor arbitrage for repetitive or low-skilled tasks, a growing number of organizations are engaging providers with the requisite Knowledge Process Outsourcing (KPO) capabilities to cost effectively manage and augment a variety of increasingly complex and high value business processes. The purpose of this report is to identify the Best-in-Class tactics top performing companies employ to first choose the right provider, then effectively structure, proactively manage, and consistently optimize an outsourcing engagement to enable faster time to market and improved levels of customer satisfaction.

### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations.

### Best-in-Class Performance

---

Aberdeen used three key performance criteria to distinguish Best-in-Class companies:

- Increase in customer satisfaction
- Decrease in time for product / service to reach market
- Increase in projects passing quality assurance guidelines

### Competitive Maturity Assessment

---

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- Best-in-Class companies are 41% more likely than the Industry Average to employ processes to measure compliance with contract objectives
- Best-in-Class companies are 66% more likely than Laggards to have communication monitoring metrics in place

### Required Actions

---

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Clearly articulate and specifically document the work to be performed
- Dedicate sufficient management time to oversee the outsourcing engagement
- Schedule and maintain open bidirectional channels of communication

### Fast Fact

Best-in-Class companies are more than two-times as likely as all other companies to experience an increase in both the percentage of time their provider meets delivery dates and overall completeness of deliverable.

## Table of Contents

Executive Summary.....	2
Best-in-Class Performance.....	2
Competitive Maturity Assessment.....	2
Required Actions.....	2
Chapter One: Benchmarking the Best-in-Class .....	4
Defining the Growing Demand for KPO Engagements .....	4
The Maturity Class Framework.....	5
The Best-in-Class PACE Model .....	6
Best-in-Class Strategies.....	7
Chapter Two: Benchmarking Requirements for Success .....	9
Competitive Assessment.....	9
Capabilities and Enablers.....	11
Chapter Three: Required Actions .....	15
Laggard Steps to Success.....	15
Industry Average Steps to Success .....	15
Best-in-Class Steps to Success .....	16
Appendix A: Research Methodology.....	18
Appendix B: Related Aberdeen Research.....	20

## Figures

Figure 1: Top Pressures Driving KPO Engagements.....	4
Figure 2: Current and Planned KPO Initiatives .....	5
Figure 3: Best-in-Class Strategies to Succeed in KPO Projects .....	7
Figure 4: Best-in-Class Risk Mitigation Tactics.....	8
Figure 5: Currently Employed SLAs.....	13
Figure 6: Top KPO Functions Outsourced by Geography.....	14
Figure 7: Best-in-Class Performance in KPO Projects .....	17

## Tables

Table 1: Top Performers Earn Best-in-Class Status.....	6
Table 2: The Best-in-Class PACE Framework .....	6
Table 3: The Competitive Framework.....	10
Table 4: The PACE Framework Key .....	19
Table 5: The Competitive Framework Key .....	19
Table 6: The Relationship Between PACE and the Competitive Framework .....	19

## Chapter One: Benchmarking the Best-in-Class

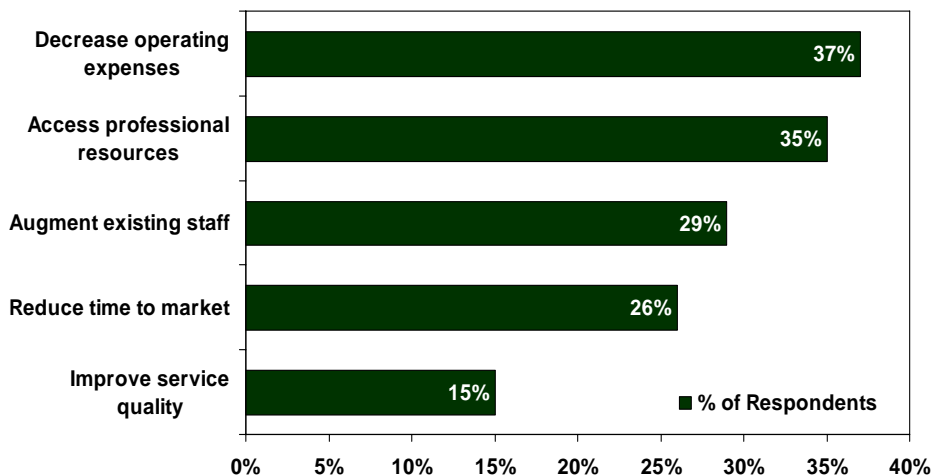
### Defining the Growing Demand for KPO Engagements

The recent financial markets meltdown and resulting upheaval in the global economic market are driving organizations, now more than ever, to achieve differentiation under tightened economic conditions through more streamlined, cost-effective operations. Additionally, a significantly heightened focus on and demand for fiscal responsibility, juxtaposed against the backdrop of an aggressively competitive vendor landscape, characterized by a highly informed market more concerned with cost reductions than brand cache, are forcing organizations to consistently deliver high levels of customer service. As a result, many organizations are engaging Knowledge Process Outsourcing (KPO) providers to handle a growing variety of important yet contextual business processes and activities; allowing them to focus the maximum amount of resources on core, revenue-growing aspects of their business. Currently, the top two business pressures driving organizations to engage KPO providers are the needs to decrease operating expenses and access professional resources (Figure 1).

#### Top Regional Reasons to Outsource KPO

- ✓ North America: decrease operating expenses (46%)
- ✓ EMEA: access professional resources (43%)
- ✓ APAC: reduce time to market (35%) and access professional resources (35%)

**Figure 1: Top Pressures Driving KPO Engagements**

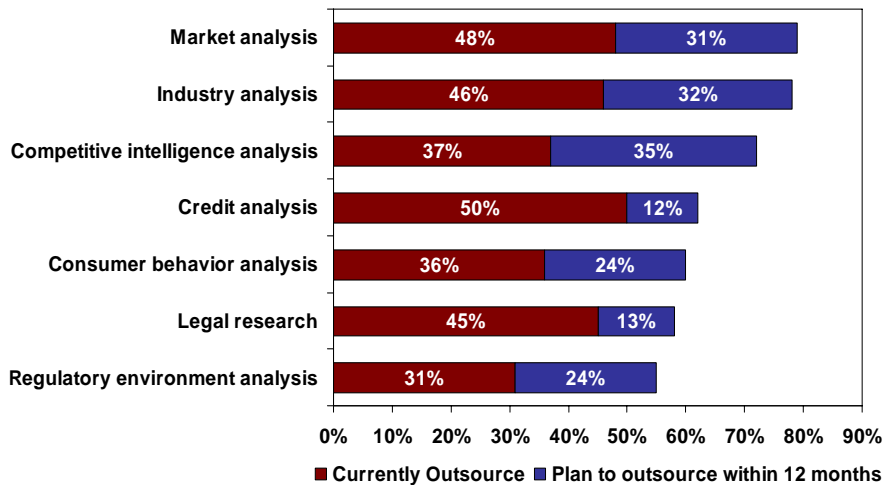


Source: Aberdeen Group, January 2009

To achieve sustainable success in the increasingly competitive and fluid nature of a globalized market requires that companies consistently fine-tune and adjust the processes used to deliver their products and services while keeping costs to a minimum. Seeking the most efficient way to accomplish this without sacrificing delivery capabilities or service quality, while simultaneously searching for ways to focus their internal resources on improving and maximizing core competencies, many organizations have begun to outsource a growing array of complex and high-value processes. Aberdeen's research shows that the demand for KPO services is growing; in

fact, many companies are planning to use KPO services for the first time in the next 12 months (Figure 2).

**Figure 2: Current and Planned KPO Initiatives**



Source: Aberdeen Group, January 2009

Seeking to achieve competitive differentiation, organizations across industries are now outsourcing high-level consumer, financial, legal, medical, and technical processes that used to be held tightly in-house.

Analogous Aberdeen Group research from the November 2007 Business Process Outsourcing (BPO) benchmark study, [Strong SLA Management Causes Increased Customer Satisfaction](#), reveals that while 92% of companies outsource some business processes, only the top 20% of companies, the Best-in-Class, utilize key project management capabilities to overcome several common roadblocks on the path to successful outsourcing. Once an organization has identified a KPO provider with the right skill set, the top performing companies establish proper relationship management structures (55%) and ensure the scope of work that is outsourced is both clearly defined and consistently monitored (54%).

## The Maturity Class Framework

The value of engaging in any business relationship, especially one that involves outsourcing complex and important processes and activities, must be directly tied to the quantifiable benefit it delivers to that organization. Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations. These Key Performance Indicators (KPIs) are the operational metrics most frequently touted as critical factors in determining and measuring the success of an outsourcing engagement: 1) the percentage of projects passing quality assurance guidelines, 2) the time required for product / service to reach the market, and 3) customer satisfaction. Table I summarizes Aberdeen's findings and defines Best-in-Class performance.

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class: Top 20%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 18% increase in customer satisfaction</li> <li>▪ 5% decrease in time for product / service to reach market</li> <li>▪ 24% increase in percentage of projects passing quality assurance guidelines</li> </ul>
<b>Industry Average: Middle 50%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 7% increase in customer satisfaction</li> <li>▪ 7% increase in time for product / service to reach market</li> <li>▪ 9% increase in percentage of projects passing quality assurance guidelines</li> </ul>
<b>Laggard: Bottom 30%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 6% increase in customer satisfaction</li> <li>▪ 11% increase in time for product / service to reach market</li> <li>▪ 1% increase in percentage of projects passing quality assurance guidelines</li> </ul>

Source: Aberdeen Group, January 2009

### The Best-in-Class PACE Model

Partnering with KPO providers to achieve corporate goals and attain the Best-in-Class performance indicated in Table 1 requires a combination of strategic actions, organizational capabilities, and provider-driven enabling technologies and service offerings (Table 2).

**Table 2: The Best-in-Class PACE Framework**

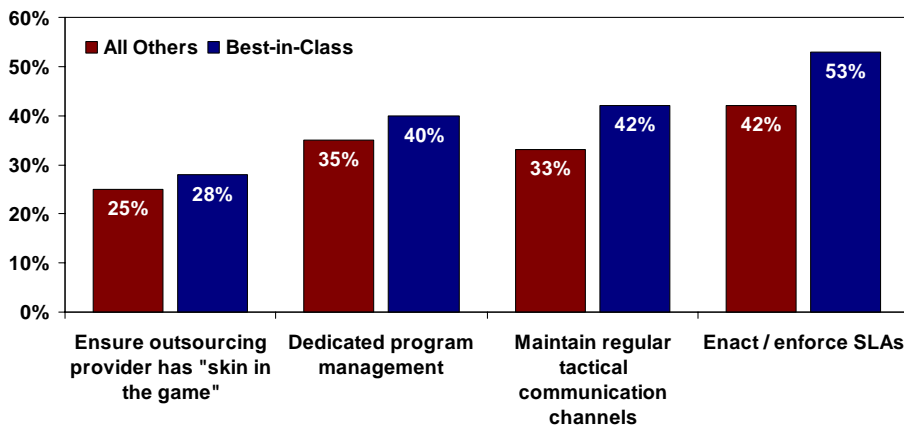
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Decrease operating expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enact and enforce clearly articulated Service Level Agreements (SLAs)</li> <li>▪ Maintain regular, tactical communication</li> <li>▪ Establish dedicated program management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Processes to measure KPO compliance with contract objectives</li> <li>▪ Regular, scheduled communications with provider</li> <li>▪ Clear, measurable, and enforceable SLAs</li> <li>▪ Procedures to map in-house business processes to KPO delivery center</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ability to provide on-demand services</li> <li>▪ Globally distributed delivery network</li> <li>▪ Large knowledge repositories</li> <li>▪ Willingness to sign and enforce Non Disclosure Agreements (NDAs)</li> <li>▪ Demonstrated intellectual property security capabilities</li> <li>▪ Secure communications, access, storage, and transmission technologies</li> </ul>

Source: Aberdeen Group, January 2009

## Best-in-Class Strategies

To overcome the top-of-mind challenges associated with operating expenses and accessible professional resources, the top two strategic actions organizations take to succeed when outsourcing professional processes are to enact and enforce clearly defined Service Level Agreements (SLAs) and establish and maintain regular tactical communication channels and activities with their outsourcing provider (Figure 3).

**Figure 3: Best-in-Class Strategies to Succeed in KPO Projects**



Source: Aberdeen Group, January 2009

The importance of both enacting and monitoring adherence to well-defined, clearly articulated SLAs cannot be overemphasized. Best-in-Class companies are realizing competitive advantages from their KPO engagements in part because their actions and tactics are geared to achieve the SLA goals they establish. Best-in-Class companies understand that by maintaining regular, tactical communication channels they are able to consistently assess project performance and, on an ongoing basis, make forward-thinking adjustments to proactively address potential problem areas that could hinder the engagement's overall success.

Also important to note, Best-in-Class companies are more likely to ensure their provider has "skin in the game." By contractually stipulating, often through Build, Operate, and Transfer (B.O.T.) frameworks (see sidebar), that the KPO provider has a financial incentive to meet or surpass the engagements established goals and ensuring that dedicated program management and tactical communication channels are in place, Best-in-Class companies are reaping the benefits that flow from achieving a greater percentage of their SLA goals. Focusing on strategies that design and operationalize a roadmap to achieving the project goals allowed the Best-in-Class to realize an 18% increase in customer satisfaction; an average increase more than twice that of all other companies.

### B.O.T. Framework Defined

Under a B.O.T. framework, a vendor organization invests upfront time to building up an outsourcing facility, ensures smooth operations, establishes and puts into place monitoring metrics, then transfers operational control to the provider.

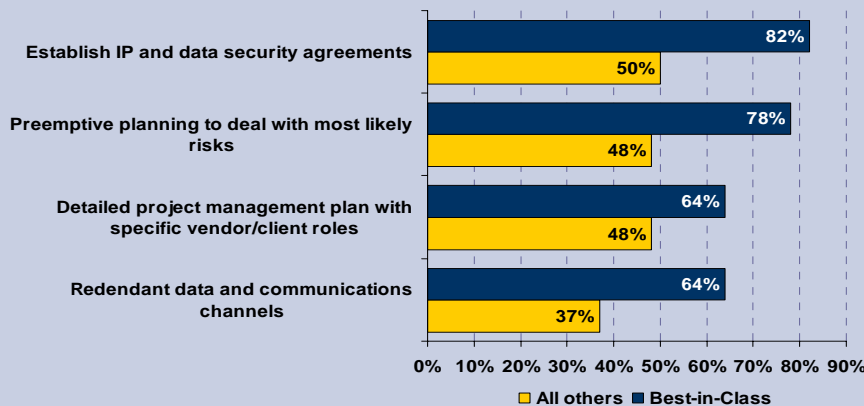
**Aberdeen Insights — Proactively Mitigating Outsourcing Risks**

Recent financial market mishaps have resulted in a dramatically heightened, across-the-board focus on risk management; vendor risk management being one of the most critical subsets. This complex, yet primarily undisciplined area is more important than ever given the substantially increased number, scope, and financial ramifications of regulatory compliance guidelines companies are held accountable for. Brand new research from Aberdeen's upcoming 2009 benchmark study, *Convergence and Integration: Risk and Compliance Strategies for Financial Services, Insurance, and Banking (FSIB)*, reveals that the need to better manage and mitigate business and operational risks (44%) and new / changing regulatory requirements (31%) are the top two business challenges facing organizations competing in the FSIB industries. Understanding the mission-critical importance of proactively addressing these areas, Best-in-Class companies are more likely to employ tactics to minimize outsourcing risks that deal with vital business issues.

"We've found that our KPO engagement has added significant value to our business model."

~ VP, Large North American Based Insurance Company

**Figure 4: Best-in-Class Risk Mitigation Tactics**



Source: Aberdeen Group, January 2009

Best-in-Class companies are much more likely than all others to establish Intellectual Property (IP) and data security agreements. This is particularly important given the media-fueled frequent and public examples of brand value, company image, and revenue degradation associated with sensitive corporate, customer, and partner information leaks. By employing tactics designed to preemptively assess, manage, and mitigate the growing number of risks inherent in any outsourcing engagement Best-in-Class companies 1) more effectively mitigate project-delaying operational risks and decreased the time required for their product / service to reach the market by 5%; and 2) establish project guidelines that fully consider relevant regulatory requirements thus allowing 60% to report an increase in the comprehensiveness of their audit trail to external sources. These results are a 2.5-times average increase over that of all others.

In the next chapter, we will see what the top performers are doing to achieve these gains.

## Chapter Two: Benchmarking Requirements for Success

The selection of a KPO provider and integration with business intelligence and business process management systems plays a crucial role in the ability to turn these strategies into profit.

### Fast Facts

- √ The Best-in-Class achieve a 32% greater percentage of their SLAs than all other companies.

### Case Study — Generating Efficiencies & Cost Savings

Information Resources, Inc. (IRI) is a leading provider of retail POS data and analytical services that enable marketing insights for Consumer Products Goods (CPG) companies. Every week, IRI collects and analyzes data from over 120,000 locations, for over 1,200 product categories, throughout seven countries. IRI's dramatic growth in the 1990's was quickly followed by intensified global competition resulting in intense P&L pressure. IRI sought to reduce COGS and improve the quality of its product offering by offshoring complex KPO data management and analytical operations. KPO offshoring objectives include:

- Enable scalability through an expandable pool of qualified resources
- Improve operations to absorb growth and reduce cost
- Create a time-to-market advantage utilizing incremental resources
- Improve quality and performance through standardization, globalization, and automation
- Differentiate through value added analytical services as the company's core data services commoditized

The KPO provider developed a transformational outsourcing strategy for IRI. The strategy leveraged the providers' global delivery model to offshore any business process that did not require routine interaction with IRI's downstream customers. IRI turned to the providers' services team to provide the operational and service capabilities it needed. The two companies agreed that the financial benefits from labor arbitrage were important, but that improved business process and analytical innovation would play an equally important role. Offshoring results include:

- Rapidly reduced operating costs by off-shoring 35% of workforce within 24 months (800+ employees)
- Reduced time to acquire, process, enrich, and release POS data by 33%
- Increased BI reporting accuracy from 96.7% to 99.6%
- Reduced analytic error 88%

### Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their daily operations); (2) **organization**

(corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

**Table 3: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Processes to measure KPO provider compliance with contract objectives		
	83%	60%	59%
<b>Organization</b>	Establish direct and specific channels to escalate problems to solutions		
	62%	52%	48%
<b>Knowledge</b>	Formal procedures to map in-house business processes to KPO delivery center		
	64%	62%	43%
	Communications monitoring metrics		
	60%	48%	36%
<b>Technology</b>	KPO capabilities and technologies		
	<ul style="list-style-type: none"> <li>▪ 78% on-demand services</li> <li>▪ 73% large knowledge repositories</li> <li>▪ 57% globally distributed delivery network</li> <li>▪ 56% expertise in leading statistical packages</li> </ul>	<ul style="list-style-type: none"> <li>▪ 43% on-demand services</li> <li>▪ 51% large knowledge repositories</li> <li>▪ 41% globally distributed delivery network</li> <li>▪ 33% expertise in leading statistical packages</li> </ul>	<ul style="list-style-type: none"> <li>▪ 42% on-demand services</li> <li>▪ 49% large knowledge repositories</li> <li>▪ 20% globally distributed delivery network</li> <li>▪ 21% expertise in leading statistical packages</li> </ul>
	SLAs currently employed KPO provider		
	<ul style="list-style-type: none"> <li>▪ 80% measure availability of service to end-users</li> <li>▪ 70% measure responsiveness to escalation events</li> <li>▪ 70% measure throughput rate (volume of work performed during specified time period)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 60% measure availability of service to end-users</li> <li>▪ 54% measure responsiveness to escalation events</li> <li>▪ 44% measure throughput rate (volume of work performed during specified time period)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 29% measure availability of service to end-users</li> <li>▪ 29% measure responsiveness to escalation events</li> <li>▪ 37% measure throughput rate (volume of work performed during specified time period)</li> </ul>
<b>Performance</b>			

Source: Aberdeen Group, January 2009

## Capabilities and Enablers

---

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis of the Best-in-Class reveals that there are a number of essential ingredients that lead to a successful KPO project. Realizing the maximum business benefit from an outsourcing engagement requires the right blend of process, organizational, knowledge management, and technology and service offering capabilities, as well as targeted monitoring metrics.

"[KPO] needs close and continued management but implemented and managed correctly adds a level of service we could otherwise not deliver."

~ COO, European-based  
Telecommunication Company

## Process

Best-in-Class companies are 41% more likely than Laggards to establish formal procedures to map in-house business processes to the KPO provider's delivery center. Best-in-Class companies realize that the complex, precise, and high-value nature of the business processes and activities being outsourced in KPO engagements requires a more preliminary ramp-up than that of the "lift and drop" approach frequently used for BPO projects. To ensure a smooth, efficient process transfer, Best-in-Class companies perform the requisite due diligence beforehand. By understanding the provider's management structure, staff size, skill sets, and specialized areas of expertise, the Best-in-Class are able to proactively address potential limitations or problem areas in process transfer procedures. By specifically incorporating a clear and practical process transfer plan into their preemptive risk mitigation strategies, (a tactic the Best-in-class are 69% more likely than Laggards to embrace) Best-in-Class companies were more than twice as likely as all others to report an increase in the percentage of time their provider meets delivery dates, and reduce the time required for their product / service to reach the market by 5%.

## Organization

Best-in-Class companies realize that no project, regardless of the amount of pre-planning effort, will go exactly to plan. By establishing a framework that identifies direct and specific channels to escalate problems to solutions, the Best-in-Class facilitate the transparent and granular stage-by-stage ownership that allows unforeseen glitches to be quickly remediated. Additionally, the Best-in-Class are over 1.4-times as likely as Laggards to stipulate "responsiveness to escalation events" as an SLA in the project contract. Placing a priority on the ability to provide smooth and rapid responses to unexpected process breakdowns from the start of the outsourcing relationship allowed 80% of Best-in-Class companies to report an increase in the completeness of the project deliverable; a rate more than twice that of all others.

## Knowledge Management

Best-in-Class companies are more than twice as likely as Laggards to effectively structure the scope and expectations of the outsourcing engagement by enacting and enforcing clearly defined, holistically communicated SLAs. Overall, Best-in-Class companies employ a greater

number of SLAs, and prioritize operational SLAs to drive continuous performance improvements. On average, the Best-in-Class achieve a 32% greater percentage of their SLAs than all other companies. The relationship between achieving a high level of SLAs and enjoying improved levels of customer satisfaction is basically one of interdependence. Although a significant portion of KPO projects are premised on cost reductions, employing the right blend of targeted operational and monitoring capabilities geared towards ensuring compliance with SLAs has the ancillary benefit of keeping the customer happy.

### **Technology**

Best-in-Class companies are 78% more likely than the Industry Average to partner with KPO providers possessing large knowledge repositories. Additionally, they are 86% more likely to partner with providers offering on-demand services. With the speed of business growing faster every day, the Best-in-Class make it a priority to choose partners with not only superior domain expertise, but also those that offer real or near real-time service capabilities. When augmented by the Best-in-Class preference for partnering with KPO providers able to leverage a globally-distributed delivery network, both speed and quality of deliverable are favorably impacted. As a result, Best-in-Class companies are more than two-times as likely as all other companies to experience an increase in both the percentage of time their provider meets delivery dates and overall completeness of deliverable.

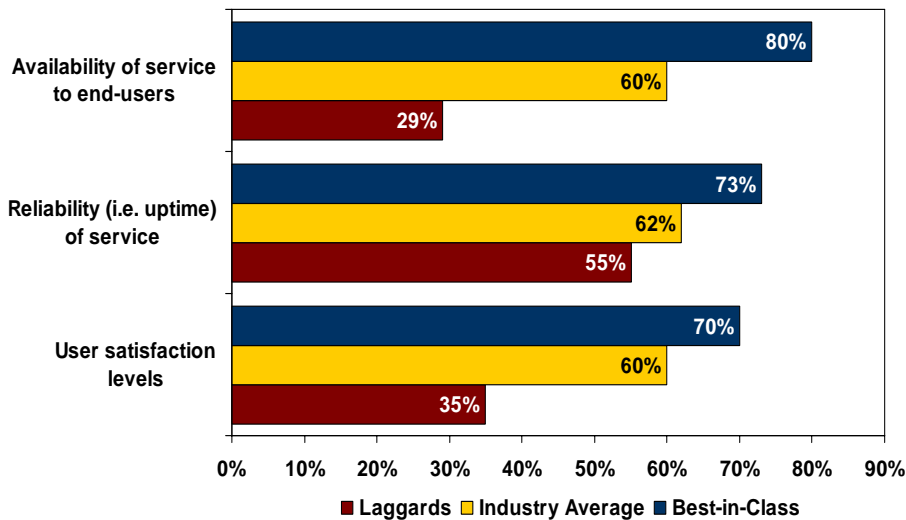
"The distinction between KPO and BPO is very blurred; hence many vendors who actually claim that they provide KPO actually are providing only BPO services. Our experience has been good, but it's important to put in the up-front work to make sure you partner with the right vendor."

~ Business Process Manager,  
US-based Financial Services  
Company

### **Performance Management**

Best-in-Class companies are able to realize significant business advantages from their KPO engagements not only because they are much more likely to consistently monitor the project's progression, but, just as important, they focus on monitoring the most business-relevant metrics and how their customers are impacted. Best-in-Class companies are 1.75-times as likely as Laggards to have SLAs in place to monitor availability of service to end-users and twice as likely to measure user satisfaction levels (Figure 5).

**Figure 5: Currently Employed SLAs**



Source: Aberdeen Group, January 2009

While possession of SLAs is clearly a prerequisite for successful KPO projects, Best-in-Class companies achieve superior results in their engagements by employing SLAs that significantly hedge against losing control over the level of service their customers will receive. By incorporating metrics that measure the criteria that are ultimately most relevant to the end-user and overall business strategies, Best-in-Class organizations are able to keep a finger on the pulse of the relationship and methodically transfer internal knowledge, IP, and process requirements.

**Aberdeen Insights — Geographic Break-down**

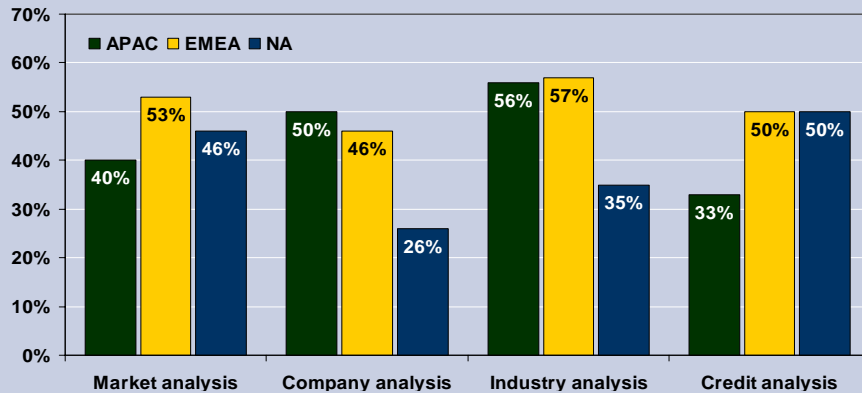
There is considerable similarity in the top KPO functions currently outsourced across all three geographies (Figure 6). Surprisingly, however, the dominant reasons behind the decisions to outsource these KPO functions vary considerably by region:

- For NA, decreasing operating expenses (46%)
- For EMEA, access to professional resources (43%)
- For APAC, reducing time to market (35%) along with access to professional resources (35%)

*continued*

### Aberdeen Insights — Geographic Break-down

**Figure 6: Top KPO Functions Outsourced by Geography**



Source: Aberdeen Group, January 2009

Companies entering into a KPO engagement should evaluate providers on their ability to validate the key expectations their clients prioritize, even when providing the same KPO function, to ensure client satisfaction along appropriate dimensions. From a KPO provider perspective, the provider should be prepared to address the top reasons why organizations do not outsource KPO functions. These also vary considerably by region:

- For NA, lack of resources for supporting outsourcing (67%)
- For EMEA, concern over loss of control (61%)
- For APAC, security concerns (44%)

Overall, when approaching KPO engagements organizations should clarify upfront their expectations and priorities surrounding the KPO project in order to increase the likelihood of meeting their specific business needs.

"We've found that market pricing / product position research is more effective if outsourced."

~ VP of Finance,  
US-based Credit Union

## Chapter Three: Required Actions

Whether a company is trying to move its performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

### Laggard Steps to Success

---

- **Establish clearly defined, business-focused SLAs.** Although 43% plan on establishing SLAs within the next 12 months, currently only 33% of Laggard companies have clear SLAs in place with their KPO provider. Enacting objective-relevant SLAs serves as the foundation of a business-advancing outsourcing relationship. If the goals, expectations, and timelines of the outsourcing relationship are defined from the beginning, the odds of achieving those goals increase exponentially.
- **Focus on tactics designed to preemptively mitigate outsourcing risks.** Proactively identifying and establishing plans to manage the most likely encountered risks is an important component of a comprehensive outsourcing strategy. For key issues like IP and sensitive information exchange, establishing data security agreements that stipulate the use of proven methodologies is a simple step that could save an incalculable amount of money.
- **Establish monitoring metrics that accurately measure throughput rate.** Currently, only 37% of Laggards measure throughput rate, or the volume of work performed during a specified time period. Either through formalized mechanisms like SLAs, or reoccurring measurement assessments, companies should consistently monitor throughput rate. At first this will help to establish a throughput baseline that companies can use to establish acceptable parameters. As the project progresses, analysis can identify trends that lead to either an increase or decrease in the throughput rate that the provider can use to modify resource allocation to ensure on-time achievement of critical project milestones.

### Industry Average Steps to Success

---

- **Develop and employ communication monitoring metrics.** Currently, only 46% of Industry Average companies employ these tools. Establishing and subsequently monitoring frequent and consistent communication with KPO providers allows companies to leverage touch-point agendas with issue-specific items and enables a 360-degree information exchange characterized by more timely identification of potential problem areas that could slow or even halt project progress. If these are mapped back to performance management metrics focused on compliance with contract

#### Fast Facts

- √ Best-in-Class companies were more than twice as likely as all others to report an increase in the percentage of time their provider meets delivery dates, and reduced the time required for their product / service to reach the market by 5%.

objectives, companies have the opportunity to generate dashboard views that give key stakeholders an ongoing, up-to-date snapshot of project progress and activities.

- **Set up a dedicated KPO project management team.**  
Currently, only half of Industry Average companies have such a team in place. Having a dedicated project management team in place facilitates a decision-making hierarchy that directly supports project execution by enhancing visibility into mission-critical tasks and helps define and solidify ownership of high-impact processes. From the KPO provider's perspective, consistently dealing with a set group of individuals helps to construct a stable framework that reduces confusion, redundancy, and interruptions while allowing the provider to devote the maximum amount of time to generating operational and process efficiencies.

### Best-in-Class Steps to Success

- **Employ SLAs that stipulate qualifications of KPO employees.** Although 40% of the Best-in-Class plan to incorporate SLAs pertaining to KPO employee qualifications within the next 12 months, currently only 40% have them in place. Costly delays and outright project failures resulting from employee, manager, and developer turnover is simply not acceptable in today's global economy of tightening margins and increased competition. Given the importance of the processes being outsourced, companies should contractually stipulate that their outsourcing partner staff the project with employees of a certain caliber. SLAs of this type grow increasingly important if the length of the outsourcing engagement continues for over a year or when renewing an engagement after the successful completion of a set project. Even the most established outsourcing providers can face difficulties in retaining highly qualified workers with the notoriously high levels of employee turn-over that popular outsourcing destinations, including India, Eastern Europe, and Latin America, constantly contend with.

#### Aberdeen Insights — Summary

Although all classes of organizations can find value in measuring their outsourcing provider's adherence to contractually stipulated goals, the Best-in-Class are realizing the greatest benefits by incorporating items such as specific quality guidelines, delivery milestones, and progress markers. Consistently measuring the status of the outsourced project against pre-determined metrics that sufficiently capture the engagement's effect on overall business goals can significantly increase the likelihood that the organization will realize tangible benefits.

*continued*

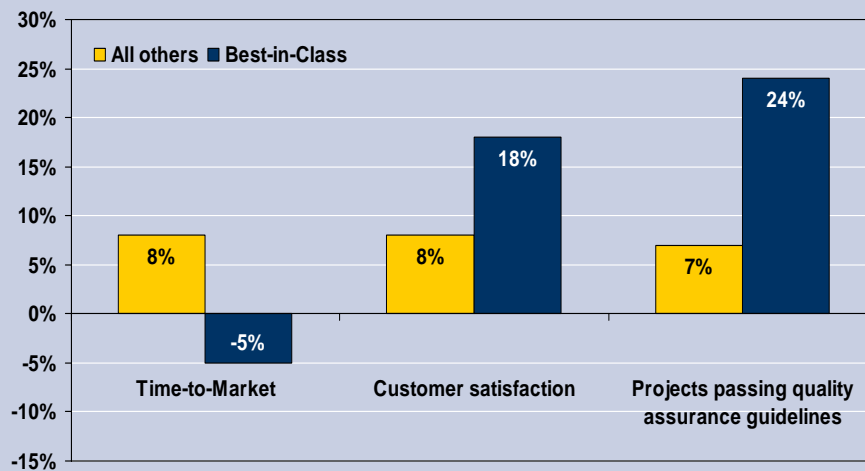
### Aberdeen Insights — Summary

In addition to incorporating the organizational and management capabilities discussed in Chapter 2 and Chapter 3, Best-in-Class companies are realizing substantial business benefits and cost savings from their KPO engagements because they understand the importance of partnering with outsourcing provider's that possess overall industry knowledge, specific domain expertise, familiarity with the latest process advancements and technological capabilities in the field, and trained staff with the requisite education and attitude necessary for consistent process optimization.

"Outsourcing processes requires transparency, commitment and change management. Creating transparency and change proves the biggest challenge. Modeling helps a lot."

~ Senior Management,  
European-based Hi-Tech  
Company

**Figure 7: Best-in-Class Performance in KPO Projects**



Source: Aberdeen Group, January 2009

## Appendix A: Research Methodology

Between November 2008 and January 2009, Aberdeen examined the use, the experiences, and the intentions of more than 120 enterprises using Knowledge Process Outsourcing (KPO) services in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on KPO strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: Senior Management (24%); Vice President, Director-level (28%); IT manager or staff (28%); and Business Process Management Director (18%).
- *Industry:* The research sample included respondents from over 30 industries. High technology / software (24%) and finance / banking (16%) were the largest segments of the sample.
- *Geography:* Forty-nine percent (49%) of respondents were from North America. Remaining respondents were from the Asia-Pacific region (19%) and EMEA (28%).
- *Company size:* Thirty percent (30%) of respondents were from large enterprises (annual revenues above US \$1 billion); 32% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 38% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Thirty-three percent (33%) of respondents were from small enterprises (headcount between 1 and 99 employees); 26% were from midsize enterprises (headcount between 100 and 999 employees); and 41% of respondents were from large businesses (headcount greater than 1,000 employees).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

### Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which KPO services are used in their operations and the financial implications of the projects
- √ The structure and effectiveness of existing KPO engagements
- √ Current and planned use of KPO services to aid operational activities
- √ The benefits, if any, that have been derived from KPO initiatives

The study aimed to identify emerging best practices for KPO projects, and to provide a framework by which readers could assess their own management capabilities.

**Table 4: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, January 2009

**Table 5: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, January 2009

**Table 6: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, January 2009

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [ITO: Reduce Costs without Sacrificing Service](#); April, 2008
- [Strong SLA Management Causes Increased Customer Satisfaction](#); November, 2007
- [Software Development and Innovation: Speeding "Time-to-Market"](#); June, 2008
- [The 2008 Aberdeen State of the Market Report](#); 2008
- [BPO: The Next Generation](#); March 2008
- [IT Outsourcing in Small to Medium Businesses: Different Goals, Different Needs](#); April 2008
- [The Small Company Selection Process for Architecture Optimization Outsourcing](#); May 2008
- [IT Infrastructure Outsourcing: Reduce Costs Without Sacrificing Service](#); April 2008

Information on these and any other Aberdeen publications can be found at [www.aberdeen.com](http://www.aberdeen.com).

Authors: Vik Muiznieks, VP and Group Director, Technology Markets, [vik.muiznieks@aberdeen.com](mailto:vik.muiznieks@aberdeen.com); Stephen M. Walker, GRC Specialist, Governance, Risk Management, Compliance Practice, [stephen.walker@aberdeen.com](mailto:stephen.walker@aberdeen.com)

Since 1988, Aberdeen's research has been helping corporations worldwide become Best-in-Class. Having benchmarked the performance of more than 644,000 companies, Aberdeen is uniquely positioned to provide organizations with the facts that matter — the facts that enable companies to get ahead and drive results. That's why our research is relied on by more than 2.2 million readers in over 40 countries, 90% of the Fortune 1,000, and 93% of the Technology 500.

As a Harte-Hanks Company, Aberdeen plays a key role of putting content in context for the global direct and targeted marketing company. Aberdeen's analytical and independent view of the "customer optimization" process of Harte-Hanks (Information – Opportunity – Insight – Engagement – Interaction) extends the client value and accentuates the strategic role Harte-Hanks brings to the market. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 723-7890, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>.

This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provide for objective fact-based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc.