

A person in a dark suit is shown from the chest down, holding a magnifying glass over a document. The document contains a table with columns and rows, and a calculator is visible in the foreground. The person's right hand is holding a black pen over the calculator. The background is a blurred office setting.

**BENORI**

# **Navigating Inflation with KPOs**

October 2023

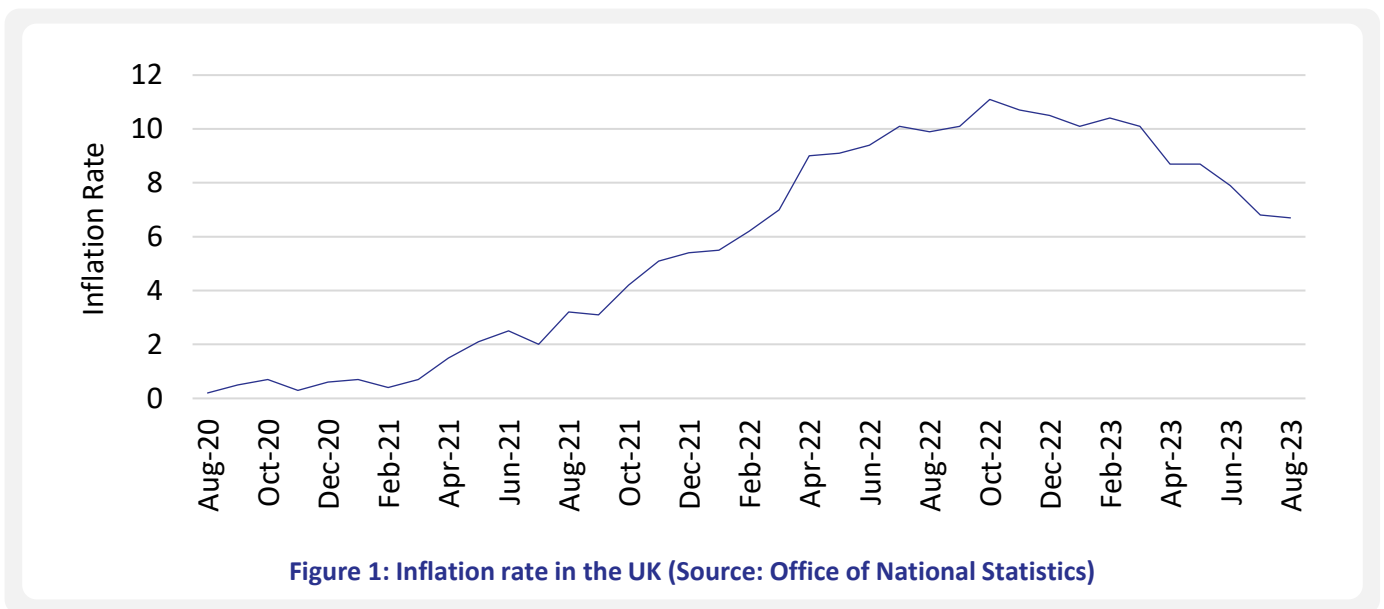
## Navigating Inflation: How Knowledge Process Outsourcing Can Help Businesses Protect Their Margins

Globally, inflation has emerged as a pressing concern, casting a shadow of uncertainty over economies worldwide. Like many other nations, the UK is grappling with rising prices' repercussions. From increased production costs to higher wages and fluctuating commodity prices, inflation has forced companies to seek innovative ways to safeguard their profits.

In this article, we will delve into the inflation conundrum, exploring its causes, impacts, and the various strategies businesses employ to enhance margin control. We will also discuss the vital role of outsourcing in cost efficiency and labour shortage solutions, particularly in delegating knowledge-based tasks, highlighting the significance of Knowledge Process Outsourcing (KPO) in aiding businesses during challenging financial times.

### The Inflation Conundrum

Inflation, the persistent increase in the general price level of goods and services, is a multifaceted challenge for businesses. It erodes purchasing power, drives up production costs, poses challenges in transferring costs to customers, and ultimately squeezes profit margins, making it a significant concern for business leaders. In October 2022, inflation surged to a 41-year high of 11.1% in the UK before gradually moderating. By August 2023, the UK's Consumer Prices Index (CPI) still reported a significant 6.7% year-on-year increase, indicating that while inflation has dipped, it remains at elevated levels. The surge in UK inflation can be attributed to various factors, including supply chain disruptions caused by COVID-19, rising energy prices due to the Russia-Ukraine conflict, and challenges related to Brexit impacting the flow of goods in and out of the country.



Moreover, high bank interest rates present obstacles for UK companies in both debt management and securing fresh loans. The Bank of England's 14 consecutive base rate hikes since 2021 are particularly challenging for businesses with pre-existing debts. By June 2023, private non-financial firms faced an average borrowing cost of 6.36%, up over 4 percentage points since the central bank initiated its rate hikes in December 2021. This confluence of a sluggish economy and high-interest rates has resulted in a notable surge in company insolvencies in England and Wales. In June, there were 2,163 registered company insolvencies, marking a 27% increase compared to the same month in the previous year, according to the Insolvency Service.

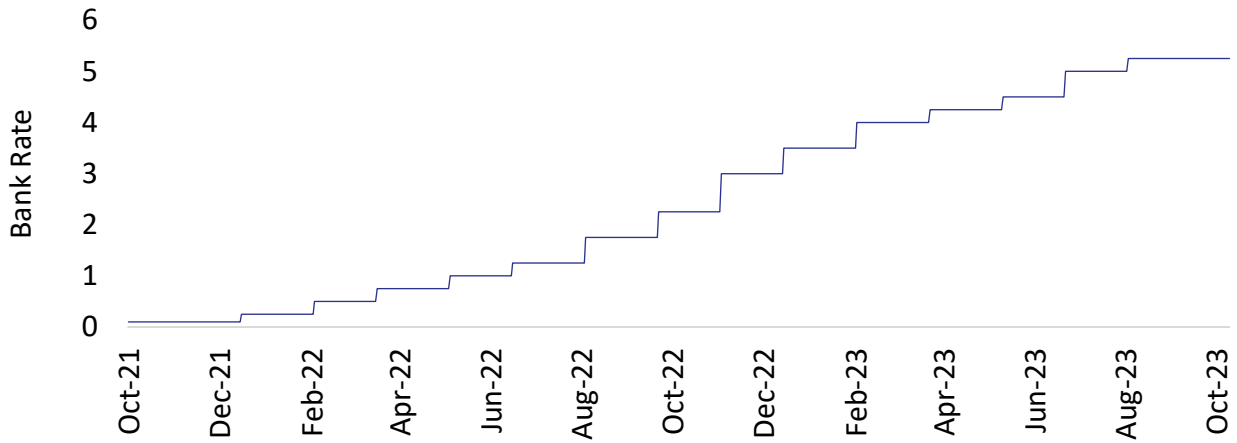
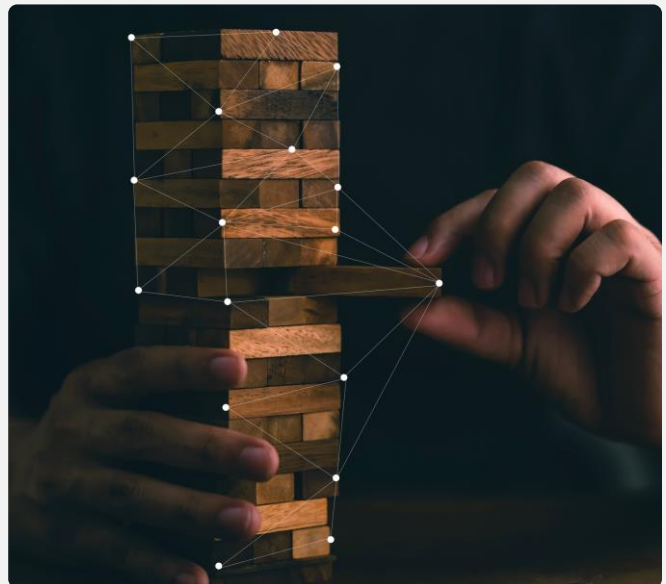


Figure 2: Bank rate in the UK (Source: Bank of England)

Furthermore, Gartner's research reveals that 74% of CFOs are most concerned about reduced profitability in response to input price inflation, primarily due to rising costs for essential production or service delivery. Among the multiple aspects of input price inflation, escalating labour expenses are a common point of reference. These costs have surged due to pay increases driven by inflation. As per the Office for National Statistics in the UK, total earnings for the three-month period ending in July 2023 increased by 8.5% compared to the previous year, marking the highest level since modern record-keeping began in 2001.

### Inflation-induced Challenges for Professional Services Firms

Professional services firms rely on a human workforce, and they face challenges stemming from both labour shortages and rising inflation. The inflationary and unpredictable environment also poses several obstacles for professional services firms, including heightened competition from firms offering lower prices, evolving client demands, and the requirement for technology adoption and upskilling to stay current with industry trends.



Inflation has wide-ranging effects, impacting consumers' buying power and challenging companies' profit margins. In this environment, it's crucial for companies to seek innovative ways to effectively manage their margins. Businesses can enhance margin management through strategies such as cost optimization, strategic pricing, productivity enhancement, and market expansion. Another approach to counter inflation is by improving cost efficiency and addressing labour shortages through increased offshoring. This margin management strategy involves delegating knowledge-based tasks, such as advisory, research, accounting, finance, legal, and technology-enabled services, to third-party providers, including KPO firms.

## The Role of KPOs in Margin Management

KPO firms offer cost-effective insights and support across diverse business areas, from strategy and market entry to sales, research, benchmarking, innovation, and data modelling projects. Many industries utilize KPO solutions to tackle inflation challenges effectively. For instance, in the financial services sector, investment firms have leveraged KPOs for financial research, risk analysis, and portfolio management, allowing them to navigate market fluctuations while controlling expenses.

This approach offers several advantages for businesses striving to navigate rising costs:

01

### Cost-effective and Quality Solutions by Tapping into Global Talent and Expertise

Rising inflation compels businesses to seek cost-effective solutions while maintaining quality. Outsourcing knowledge-based tasks to KPO providers offers a way to access excellent services without hiring and training in-house experts, resulting in significant time and cost savings. Also, KPO providers tap into cost-effective labour markets and a global talent pool, allowing them to deliver quality services at competitive rates, effectively cutting labour costs.

02

### Operational Flexibility for Businesses to Navigate Economic Uncertainties Effectively

KPOs provide businesses with the flexibility to scale their operations as needed. This scalability is crucial in managing costs during periods of economic uncertainty, when companies must remain agile. When faced with inflation-related challenges, companies can quickly adapt their outsourcing arrangements to match their evolving business requirements.

03

### Access to Specialized Skill for Enhancing Productivity and Tackling Labour Shortages

KPOs offer specialized expertise, enabling companies to outsource knowledge-intensive tasks to domain experts, freeing up in-house teams for core competencies and strategic initiatives, thus boosting productivity. These firms have professionals with specialized finance, analytics, and research knowledge, enhancing operational efficiency and decision-making. A British Chambers of Commerce survey of 4,800 UK firms found that 79% faced challenges in hiring their desired workforce, highlighting a labour shortage and rising wage demands. These firms can delegate certain tasks to KPO firms, leveraging their human expertise, at a cost-effective rate.

04

### Data-driven Insights and Strategic Support for Businesses Navigating Inflation and Ensuring Compliance

Inflation brings uncertainty to businesses. KPO providers offer data-driven insights and strategic guidance, aiding better decision-making and risk mitigation. They can also assist businesses in ensuring that their processes and operations adhere to the regulations.



05

**Leveraging Cutting-edge Technology Trends Such as GenAI to Improve Service Delivery**

KPO providers stay current with the latest technology trends and utilize cutting-edge tools such as GenAI to enhance service delivery. Integrating technology solutions into business processes can optimize operations and reduce costs, which is crucial in an inflationary environment where cost management is paramount to maintaining profitability.

06

**Providing Customised Solutions to Specific Client Needs, Helping with Cost Optimization**

KPO firms offer a flexible approach to service provision, allowing customisation to align precisely with the client's specific requirements. This eliminates the need to invest in a comprehensive package, sparing clients from paying for unnecessary solutions. This tailored approach aids in cost optimization, ensuring that customers pay only for the services they require.

**Conclusion**

As inflation continues to pressure businesses in the UK and other Western countries, adopting knowledge process outsourcing offers a practical and cost-effective solution. KPO provides access to specialized skills and enhances flexibility, scalability, and risk management. By embracing KPO, companies can effectively manage their margins, remain competitive, and thrive in a challenging economic environment.



Benori is a trusted partner for knowledge solutions across the globe, serving clients from a wide range of industries including Professional Services, Financial Services, Consumer & Retail, Technology & Internet, Industrials & Manufacturing, and more. Our customized solutions strengthen the insights value chain of our clients, empowering them with key insights needed to drive intelligent decision-making and accelerate growth.

Headquartered in India, Benori is uniquely positioned to deliver multilingual research needs of global clients, powered by its digital agility, deep research capabilities and a highly experienced leadership team. Adopting a 360-degree approach, our team employs a combination of diverse methodologies including primary research, secondary research and data modeling, and offers detailed foresight on market trends, competitive shifts, regulatory changes and technological advancements.

## Powering Growth Through Knowledge



[info@benoriknowledge.com](mailto:info@benoriknowledge.com)



[www.benori.com](http://www.benori.com)

**BENORI**