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The business case for call centre outsourcing

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Abstract

Call centre outsourcing is on the rise. The number of companies opting to entrust their customer relationships to a third party is set to increase by around 12–14 per cent over the next year. This paper examines why so many companies are hungry to outsource, why so many fail and what they can do to improve their chances of success by building a robust business case to defend their outsourcing decision.

Keywords: outsourcing, call centre, contact centre, customer management, CRM

The outsourcing decision

The decision to outsource is usually driven by one of two overwhelming business imperatives. The first is a desire to gain access to world-class capabilities in customer management, an area that, though vital to any organisation's success, is not a core business skill for most. The second is cost. The temptation to move all costs associated with the call centre operation off the balance sheet can be overwhelming.

Businesses the world over are recognising that, in increasingly commoditised markets, it is frequently the quality of the service experience rather than the product alone that wins the customer and keeps them loyal. As the tools and techniques of customer management become more sophisticated — principally fuelled by the proliferation of communication channels and the technology required to support them — more and more companies are outsourcing as the most economically viable way to stay ahead of the curve.

In many ways they are right. More and more companies are outsourcing in order to place responsibility for the capital investment needed to keep pace with customer management technology on someone else's shoulders rather than their own. That is hardly surprising, given estimations that a full customer management technology deployment can take up to two years and cost as much as US\$4m, and that, according to Gartner,¹ 65 per cent of those implementations fail!

But it is also important to remember that outsourcing is not a risk-free option. Around 30 per cent of all outsourcing projects fail, according to analysts IDC.² That is usually because they are based on false assumptions, poorly specified requirements, ill-thought-out business plans and false expectations on behalf of both the company and the outsourcing supplier.

But outsourcing any business activity is a risk. Outsourcing something as vital as customer management is fraught with difficulty and the cost of

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failure — in terms of money, reputation and goodwill — can be dramatic. How appalling then that, all too often, outsourcing decisions are taken lightly and the processes that govern them are neither focused nor rigorous.

Building the business case

Building a robust business case that examines all of the possible in-house, outsourced and combined solutions, that is based on a thorough review of the organisation's business needs and growth ambitions and that is centred upon the expectation that customers are key to the organisation will determine whether outsourcing is, in reality, the most appropriate course of action.

Exact specification of work to be done

In addition, because the business case will exhaustively and exactly specify the work that needs to be done and its expected benefits, it will provide a sound and stable foundation for the selection of an outsourcing partner. It will also serve as a starting point for the development of an outsourcing relationship based on a clear understanding of each party's responsibilities and expectations.

Analyse business needs

The first step any business should take when developing a business case for call centre outsourcing is to make as thorough an analysis as possible of the needs of the business, the resources (in terms of both physical assets and staff) currently in place and whether or not they are adequate to the task.

This can be a movable feast, given that serious consideration of outsourcing as an option is usually triggered by one of four factors.

- Structural changes, such as takeovers or mergers, that increase the size and scale of the organisation's customer management activities and therefore force a re-evaluation of current capabilities.
- Industry-wide changes, such as deregulation, that bring about a fundamental change in the way customers can be approached and therefore a new competitive environment. Many companies, feeling ill-equipped to cope, will seek outside help.
- Company-wide continuous improvement and process re-engineering programmes aimed at cost reduction, revenue generation or customer service improvements will frequently prompt a re-evaluation of call centre provision.
- Expansion, either through gradual growth of existing business or the introduction of incremental activity through newly developing business streams.

Understanding the new customer management challenges the organisation faces under any one of these scenarios will require significant input from a number of individuals and departments across the organisation.

Cross-functional involvement

Most important, of course, are those individuals and departments who have direct responsibility for some aspect of the customer experience; most obviously the sales and marketing, customer service and customer

support departments. They, clearly, will have the greatest concern for the impact any outsourcing decision will have on the customer experience. It is almost certain, too, that procurement departments, finance and — if a change management process is ongoing — their related project teams will also be involved. Their areas of interest are likely to be different and be primarily concerned with cost reduction.

Balancing cost and service

Inevitably issues of cost must be balanced against the customer service ambitions of the organisation. A good business case will achieve this balance and leave no one in any doubt about what the project will aim to achieve in each of those areas.

It is vital to establish this balance early. A solution that makes perfect sense from a cost and operational perspective will appeal strongly to the finance team but, if it fails to improve the customer experience or, indeed, compromises it, will imperil the future of the business. Similarly, a solution that focuses only on improving the customer experience but does not measure those improvements against their cost in relation to the business value they represent will equally place the business at risk.

There are very few organisations which would state that their sole aim in outsourcing has been to reduce cost, and yet, in many of the business cases reviewed from such organisations, cost reduction is the only justification for action that is seriously considered. Clearly something has gone wrong.

While it is relatively simple to see and measure the cost reductions promised by improvements in productivity, it is more challenging to measure, in financial terms, the risk to service quality that these productivity improvements may engender. Nor is it easy to identify and measure the financial value of improvements in the quality of the customer experience.

Measuring value

In a sales environment it is relatively easy to measure the value of each sale relative to its cost. In a service-only call centre it is less straightforward. The task of assigning a monetary value to the contribution they make must be based on long-term measures, such as customer tenure and overall lifetime value. If, in the sales operation, one must measure the cost of winning a customer, in the service environment one must measure the cost of keeping him, ensuring always that this cost is outweighed by the ongoing revenue he brings to the organisation.

Secure cross-functional buy-in

Once the assumptions upon which the financial benefits and costs of any proposed solution will be measured have been established, it is important to make sure that all the key decision influencers and makers accept them, in advance of the business case being developed. This will prevent arguments about detail later and clear the way for the business case to be debated on the basis of its overall strategic merits, the potential risks and benefits it offers the organisation and its true financial implications.

Debating strategic merits

In addition it may be necessary to involve other individuals or departments. Issues of systems compatibility will, for example, make it

vital to engage IT at an early stage, while the effects of the outsourcing project on in-house staffing levels may raise issues of redundancy and team changes that will require careful handling through the HR department. Finally, it may be necessary to involve the property department in order to assess the project's impact on the company's facilities.

Understand the task

With input from each of these business areas it should be possible to build up a comprehensive picture of what the business needs to achieve, the scope of the customer management task it faces and the adequacy of its current resources.

Comprehensive process mapping

But this may be more difficult than one would imagine. Many companies lack any really accurate understanding of the customer management activities currently being undertaken by any one department. This may be due to a lack of process mapping or metrics, or because informal relationships and activities have evolved over time and not been accurately documented. If this is not addressed early on, solutions will be developed based on inaccuracy or supposition and will result in failure.

Countless outsourcing relationships founder because activities previously undertaken in-house have inadvertently been left out of the specification. Customer experience suffers as a result. Similarly, an outsourced service partner will frequently be disturbed to discover, after the fact, a host of duties it is 'unofficially' expected to perform that were not formally included in the specification of work. This is likely to set off a spiral of disappointed expectation and compromised service quality that, once begun, leaves the relationship between the client and service provider irreparably damaged.

This problem can be averted by carrying out a thorough analysis of the work flows of each department involved in the customer management process. To get the right level of objectivity it is advisable to use an external and disinterested professional to perform this task.

Determine the solution

Once a thorough understanding of the task in hand has been established, the next challenge is to determine the most appropriate solution. The traditional, simplistic model that looked at in-house as an option on the one hand and outsourcing on the other is now defunct. As the call centre industry matures (following a similar fragmentary trajectory to the IT market) so the number and variation of possible solutions are increasing.

In-house

For most companies this is the starting point from which an outsourcing option will be considered. But, whatever the motivations for change, the option to retain an in-house operation should be considered seriously, using the business case review to look at how operations are run and identify areas for improvements, efficiency gains or opportunities for investment. It may become clear that dramatic improvements in the in-house operation can be achieved and that these, considered alongside the

Identify areas for improvement

cost of divesting the in-house infrastructure, outweigh the potential benefits of a move to outsourcing.

Outsourcing, UK or overseas

The overseas option has developed strongly over recent years, bringing additional complication to the outsourcing decision. The considerable cost benefits that are on offer (in India, for example, outsourced call centre costs are approximately 40 per cent lower than in the UK) have become powerful motivators as the economic climate in the UK has deteriorated. At the same time, confidence in the quality of offshore service providers has increased.

The assessment of an offshore option involves new factors. These will include cultural fit, regional risk, the cost and difficulty associated with managing an outsourced relationship at long distance and the impact on corporate image (companies moving operations offshore have faced some negative press comment as well as employee and customer backlash).

The author's company recently undertook research to examine the decision-making processes of 13 companies that either have or are considering outsourcing call centre operations offshore. It indicates that companies will pursue a balanced offshore and UK-based business model and seek out those outsourced service providers able to offer offshore services in combination with strong UK-based resources and management capability.

This would seem to be a realistic approach that achieves an appropriate balance of benefit and risk.

At present most companies will only consider placing low-value, principally non-customer-facing activities offshore. Those with most experience in the marketplace, however, indicate that their confidence in the quality of Indian operations is growing, leading them to consider placing more complex work there, such as low-level technical support or response analytics.

There do appear to be limits, however. Though the extent to which companies will embrace offshore, and the speed with which they will do so, will differ from company to company, it is safe to say that work which is complex in nature involves a large amount of cultural contextualisation or relies upon a direct interface with other centralised business processes is unlikely to leave the UK.

Insourcing

This is a hybrid solution that utilises the client's building and hard assets but uses staff supplied by the outsourcing partner. This is often an ideal solution for companies whose decision to outsource is principally driven by human resources issues. They may be reluctant, for example, to take on significant numbers of employees or lack the skill and experience needed to recruit or manage a large call centre staff. But if they have buildings and facilities available that can be utilised cost effectively this option may make excellent financial sense. Equally, this degree of physical proximity frequently works well in instances where the work

Balanced on- and offshore business models

Effective asset utilisation

being outsourced requires high levels of integration with existing in-house processes or personnel.

Hotelling/hosting

This solution uses the client's own people but houses them in premises provided by a partner. This is frequently used for short-term projects or to provide low-cost flexibility to meet business peaks.

Conclusion

While these options may seem bewildering, it is important to remember that the decision between them will be made based on the fundamentals identified by the business case. Each option will be measured in terms of its costs, the business risk it represents and the value it can deliver in terms of the customer experience, with each of these being finely balanced.

In assessing cost it is important to bear in mind the absolute cost of the solution over the contracted period plus the up-front set-up costs. Some options may deliver a lower contract cost than others, but this apparent advantage could be offset by prohibitively high set-up costs, or vice versa. Here much will be determined by the organisation's financial situation and attitude to commercial risk.

In conclusion, anyone embarking on this process should remember that the final measure must be 'what does this do for my customers?'. They are, after all, the people with the ultimate power to affect the future of your business. If any solution you are inclining towards does not allow you to do more for your customers, more cost effectively, simply reject it.

References

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Decisions dictated by the business case