CALL CENTER MANAGEMENT
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2006 Contact Center Outsourcing Report

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Contact Center Outsourcing Survey Results

Not long ago, it wasn't uncommon for organizations to view their call center as a necessary nuisance, a required cost of doing business, and thus, many didn't think twice about handing the entire operation over to a service bureau with the primary intention being to merely cut costs.

Today, however, the contact center is widely recognized as a critical business unit without which most enterprises cannot thrive. The contact center represents the ears of the organization, collecting invaluable customer data that can lead to overall business improvement and increased revenue. Consequently, companies don't want to hand over their contact center operations to just any agency. Nor do many want to hand over the *entire* operation. Today, most contact centers that opt to outsource do so on a smaller scale, using the outsourcer as a strategic extension of their own center to help fill in gaps, handle overflow, and expand services, hours of operation and/or channel options. And because today's contact centers are more selective of whom they let handle their customers, the outsourcers themselves have had to step things up several notches. Gone are the days of the service bureau sweatshop; today, outsourcing specialists must embrace the latest tools, trends and best practices if they are to survive.

To get a better glimpse of what's happening today in contact center outsourcing—including what percentage of organizations currently outsource customer contacts, what types of contacts they are outsourcing, and the biggest outsourcing benefits and challenges they've experienced—ICMI surveyed 279 call center professionals (mostly from North America, but managers around the globe also responded) in late-March/early April 2006.

Following are the key findings of the survey:

- Three in 10 respondents (29.4%) in the survey indicated that their call centers currently outsource customer contacts to an outside agency/service bureau. Very few centers, however, rely on their outsourcer to handle most or all of the contact volume: 42.9% of responding centers outsource only 1%-20% of customer contacts the company receives; 19% outsource 41%-60% of total volume; 17.5% outsource 61%-80% of contacts; and 12.7% outsource 21%-

In this ISSUE

Call Center Management Review provides the research, strategies and solutions necessary to successfully manage a customer contact center. Our independent perspective, relevant reports and in-depth analysis enables organizations to provide cutting-edge customer services, and for individuals to further their careers.

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40% of the workload. Only 7.9% of respondents reported using an outsourcer to handle most or all (81%-100%) of the customer contacts received by the company.

• The vast majority of responding centers that outsource use an agency located in North America, with 71.4% using a U.S.-based outsourcer and 19% using a Canadian-based one. The other most common outsourcer locations reported include India (25.4%), Far East Asia (11.1%) and Central America (6.3%).

• The most common types of customer contacts outsourced by respondents include:

1. Basic request contacts (30.2%)
2. Overflow contacts (25.4%)
3. After-hours/weekend contacts (25.4%)
4. Foreign language contacts (14.3%)
5. Contacts resulting from special promotions (12.7%)

• Cost reduction remains the most common driver of outsourcing decisions; 65.1% of respondents cited this as a "key reason for outsourcing." Other key reasons cited include:

– To handle overflow (41.3%)

– To provide extended hours of operation (27%)

– To tap into the outsourcer's overall experience and expertise (27%)

• Only 4.8% of respondents cited "To improve e-support" (handling of email, chat and Web contacts) as a reason for outsourcing.

• The phone is by far the most common channel outsourced; 98.4% of centers that outsource reported outsourcing customer phone calls. More than half (52.4%) of these respondents indicated that phone contacts comprise 81%-100% of their overall outsourced workload. In comparison, only a third of centers that outsource reported outsourcing customer email contacts, and most of those that do said that they outsource only a small percentage (1%-20%) of these contacts. Only one in five centers (19%) that outsource indicated that they outsource text-chat contacts, with only a smattering of them outsourcing more than 20% of these contacts.

• Most respondents indicated that their outsourcing ventures were managed either by a team comprised of both managers from the client contact center and the outsourcing agency (46%), or by a dedicated manager/management team at the outsourcing agency (39.7%). A few initiatives (9.5%) are managed entirely by a manager/team from the client contact center.

• Respondents reported using a variety of methods for keeping tabs on how the outsourcer's agents are handling customers. The most common include:

– Receive daily reports on key performance attributes (79.4%)

– Have access to call recordings (65.1%)

– Directly monitor outsourcer's agents remotely on occasion (58.7%)

– Survey customers handled by outsourcer and evaluate feedback (49.2%)

– Have access to real-time performance data via the Web (42.9%)

• The vast majority of respondents are either "somewhat satisfied" (49.2%) or "very satisfied" (39.7%) with their outsourcing partner's performance. Only 1.6% reported being "very dissatisfied."

• The top five outsourcing benefits cited by respondents include:

1. Lower operating costs (33% said they have experienced this "in moderation"; 21% have experienced it "in abundance.")
2. Expanded hours (29% in moderation; 21% in abundance)
3. Better handling of peak traffic (27% in moderation; 22% in abundance)
4. Improved staffing flexibility (24% in moderation; 19% in abundance
5. Higher productivity (30% in moderation; 10% in abundance)

Other common outsourcing benefits cited by respondents include: higher customer satisfaction; better disaster preparedness; and higher quality.

• The three most pressing outsourcing challenges/problems reported by respondents were:

1. Keeping tabs on outsourcer's performance in real time (21% listed this as "moderately challenging"; another 21% listed it as "very challenging")
2. Building a sense of team and commitment to our organization's mission/values (25%—moderately challenging; 13%—very challenging)

3. Outsourcer not meeting our performance objectives (22%—moderately problematic; 11%—very problematic)

• Other common outsourcing challenges/problems cited include "communicating needs to outsourcers" and "hidden costs—outsourcing arrangement costs more than envisioned." (To read more about common challenges associated with outsourcing, see the article on page 6.)

• Of the respondents whose contact centers currently do NOT outsource any customer contacts (70.6% of all respondents), one in four (26.1%) has outsourced in the past, then brought operations back inhouse due to dissatisfaction with the arrangement. (For more information on how best to "backsource" after a failed outsourcing venture, see article on page 10.) The most common reasons cited for ending the outsourcing partnership were:

– The outsourcer didn't meet our performance objectives (59.2%)

– Trouble keeping tabs on outsourcer's performance (51%)

– Trouble building a sense of team and commitment to our organization's mission/values (36.7%)

– Hidden costs—outsourcing arrangement costs were more than envisioned (36.7%)

• More than two in five respondents (42.2%) from centers that have ended outsourcing partnerships in the past said that they would still consider outsourcing customer contacts again in the future. ■

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Foundations of Effective Call Center Outsourcing

Could an outsourcing arrangement benefit your organization? A look at the benefits, alternatives and factors for success.

Call centers are an integral part of nearly every organization. In many instances, our call centers provide the most popular link between the customers we covet and the products and services that we offer. Well-run call centers increase customer loyalty, boost revenue (directly and indirectly), and serve as a window into the needs and behaviors of customers (see the box on page 3).

Of course, none of this comes for free—call centers can be costly to set up and operate. Everything from real estate improvements to technology and furniture requirements demand a high upfront investment, while the large number of personnel required to keep it all running smoothly results in significant ongoing operating costs. Budgets in the tens or hundreds of millions of dollars make savings of even two or three percent very attractive. It's no wonder that many organizations are either outsourcing some contact center work, or considering doing so in the future.

The call center outsourcing industry has been around for a couple of decades now, and there are hundreds of firms providing outsourcing services. Many differentiate by expertise, size (the workloads they can handle), vertical industry served, global reach (or specific local expertise), contact channels handled (phone, email, Web chat, etc.), various back-office and/or support capabilities and costs. If you are considering outsourcing part or all of your center, it's likely that many outsourcers want your business and—conceptually,

The Three Levels of Value Contact Centers Create

According to International Customer Management Institute (ICMI), contact centers have the potential to create value on three levels:

LEVEL 1: BASIC EFFICIENCY

Because call centers pool information, people and technology resources, they are a highly efficient means of delivering service. Disciplined planning, accurate staffing and schedules, and effective real-time management complement and further the call center's inherent efficiencies.

LEVEL 2: CUSTOMER SATISFACTION AND LOYALTY

In recent years, research has begun to reveal the powerful connection between high levels of customer loyalty and profitability. One of the call center's major objectives should be to ensure that customers' views always end up in the "top box" on customer satisfaction surveys.

LEVEL 3: CONTRIBUTION TO OTHER BUSINESS UNITS

Call after call, hour after hour, day after day, the call center captures information that can literally transform an organization—e.g., intelligence that helps other departments improve quality, further research and development, focus marketing campaigns, detect potential legal or publicity problems, and provide input on how to improve self-service systems.

Historically, for many organizations, objectives, measures and development efforts have been primarily focused on Level 1 processes. But those organizations getting the best results are increasingly taking inventory of job roles, processes, objectives, technologies and business partners (e.g., outsourcers) to ensure that they are designed and aligned to deliver maximum value on all three levels.

anyway—can meet your requirements.

If you prefer to keep some services in-house, there are many outsourcers that will gladly handle a portion of your workload. In fact, many organizations get started in outsourcing by having an outsourcer handle customer email and/or some type of paper-based transactions.

Alternatively, the outsourcer can handle a subset of calls—for instance, those that are of a simple nature and do not require licensing (within certain industries). Still another approach is for the outsourcer to handle contacts during peak periods or overnight. Each approach presents pluses and minuses, but, in the end, they all offer a way to "test" a relationship without risking too much up front.

You will also have choices in the structure of the outsourcing arrangement. The typical setup is for a "full-service" contract, where the outsourcer supplies the physical facility, management team, frontline staff and technologies, while the client manages the information (customer database, desktop information, etc.) that agents need to handle contacts. However, you have many alternatives to the customary full-service approach. For example, if you have a great management team—and nothing else—some outsourcers will willingly supply the facility, technology and agents, and will let you run the show.

Ask the Right Questions

Outsourcing any business process is never a decision to be taken lightly—but when dealing with a customer-facing process, the stakes are even higher. Make the right decisions, and you can be rewarded handsomely in higher revenues, greater customer loyalty, and a boost to your brand and market share. Make the wrong decisions, though, and poor customer experiences will lead to a devastating and long-term impact on the bottom line that far outweighs reported savings in operating costs.

The first question you will need to ask is… why? What do you hope to gain by outsourcing? As many have learned the hard way with misguided or mismanaged technology purchases, outsourcing for the sake of outsourcing is never the right answer. Outsourcing should be clearly designed to solve specific business problems and/or leverage the organization's opportunities.

The table on page 4 summarizes common reasons to outsource some or all of the workload, along with alternatives that should also be considered.

Two Prerequisites

In most call center operations, there are essential prerequisites that must be addressed early in the planning phase. For many types of organizations, security is a top concern. Not only must you assess technology and process requirements, you'll also need to decide on the level of access that the vendor will have to information and applications. To avoid any unpleasant surprises, involve your auditing team in the planning process early and often.

ISSUE	OUTSOURCING BENEFITS	ALTERNATIVES
Improve speed to market	Some outsourcers will be ready to go, with the technology, people and basic processes you need. Depending on the size and complexity of the project, licensing requirements, training needs, etc., you could be up and running in two to eight weeks.	You may want to do it yourself. Many call center facilities have "gone dark" in recent years, and buildings with equipment are available for lease or purchase, often with attractive incentives. Depending on how recent the center was closed, you may also have access to a large pool of ready and willing staff.
Reduce upfront investments	Many outsourcers will already have the required technologies and equipment in place. Consequently, initial investments will be limited to training costs, project management and other direct costs—all of which may be amortized over the life of the contract.	Nearly all call center equipment can be leased. Alternatively, services can be paid for on an as-use basis through an ASP model.
Lower operating costs	Through shared fixed costs, management expertise and lower wages/real estate, call center outsourcers can typically run operations at lower costs than in-house centers. How much less is often dependent on location—e.g., centers in India or the Philippines can reduce operating costs up to 50 percent.	In-house centers do not always run at peak efficiency. Improved management expertise, along with process improvements, can help to close the cost gap. Further, in-house centers may be better positioned to create value on Levels 2 and 3—customer loyalty and business unit contributions (see box on page 3).
Work around space limitations	Many outsourcing organizations are able to scale—e.g., add positions and sites as necessary—to accommodate workload requirements.	Telecommuting and/or satellite operations are increasingly feasible and prevalent. Internet-based technologies have made these options cost-effective and much easier to manage. An added benefit: They provide disaster recovery capabilities.

Another prerequisite to address is that of accents and dialects. The call center is the face of your company, and your customers must feel completely confident in the process and in those who handle interactions, or you'll pay a heavy price in terms of poor customer perception and defections. (Remember to maintain a balanced perspective–the United States, Canada and many other countries are populated by people from a wide range of backgrounds and cultures–accents and dialects are not, in and of themselves, the problem. But if customers have a hard time understanding agents, or if service is poor, customers will perceive that you're trying to provide service "on the cheap.")

Common Myths

There are a number of common myths about call center outsourcing. Among them:

"If I outsource, I can eliminate the need for call center management in my organization." The reality is, you'll need a high level of expertise–albeit from a smaller management team than would otherwise be required–to oversee the operation. Even in a small organization, you'll need at least one person whose main job function is to coordinate with the vendor and ensure high levels of performance. Larger organizations will also need to consider ways to perform quality assurance and measure customer satisfaction, either with in-house or contracted staff.

"Outsourcers that have experience in my industry have seen it all, and will be prepared to handle any situation." In fact, many outsourcers are not nearly as experienced with some facets of call center management as you may think. For instance, call forecasts are often provided by the client; as a result, the outsourcer may not have a robust forecasting and analysis team in place.

"If I put together a solid contract, the outsourcer's motives will be aligned with mine." While it is in the best interest of all parties to develop a win-win relationship, it's important to remember that the outsourcer is in business to make money. If best-practices are in conflict with contract requirements, best-practices can lose out.

On the other end of the spectrum, we have run into those who believe that outsourcing is risky, even with proper planning. But we have found that when clients ask the right questions, shape the right agreement and stay involved in the process, success rates are high.

Success Factors

There are two factors we have found in our consulting work that are particularly essential to outsourcing success—selecting the right vendor and ensuring effective day-to-day operations.

Selecting the right vendor is especially important in customer-facing operations, and requires the following:

1. Take the time to go through a full Request for Proposal (RFP) process. If you try to cut corners, you are bound to miss out on the information you need to make an informed decision.

2. Make sure that you identify key proposal evaluation factors up front. We recommend creating a scoresheet for all key call center performance areas outlined in your RFP.

3. Ensure that you have strong call center expertise that you can draw on when creating your RFP, and when evaluating responses and prices. If you don't have the expertise in house, contract with an external resource.

4. Know the implications of different pricing alternatives. You'll see fixed-fee prices, cost-plus prices and variable pricing based on call-minutes, agent-hours or even number of calls. In addition, some vendors will propose various incentives (e.g., for volume) within their prices. It's essential to run scenarios that reveal the impact of each alternative, so that you truly understand cost tradeoffs.

A second essential success factor, effective day-to-day execution, requires the following:

1. Visibility into the vendor call center. Automated call center systems can allow you to easily "see and hear" remotely (through reports, monitoring technologies, etc.) what is going on. Make sure that you are set up with all the tools that allow this automated visibility.

2. Direction from internal staff. As noted above, you can't simply turn over the keys and walk away. Set up a structure with clearly defined internal roles that ensure that the call center gets the direction it needs to meet the vision of the organization.

3. Regular, formal communication. Relationships with outsourcers require more formal, documented communication than typical internal inter-departmental communication. To maximize returns and avoid problems, plan on having regular operational meetings that are fully documented.

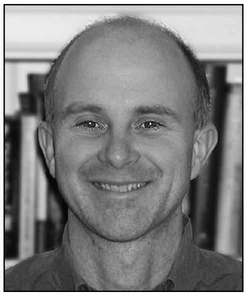
Invest the Time Up Front

The overarching message of this article is: Do your homework! There are many outsourcing success stories, just as there are plenty of failures. Without exception, the most successful cases involve teams in both organizations that invest the time and input necessary to align expectations, contractual requirements and processes with the client's objectives and strategy. The extra investment up front will put you on the right path from the start. ■

The Truth about Global Outsourcing: 10 Lessons Learned about the Difficulties of "Getting It Done"

by Ralph Welborn, Ph.D., and Vince Kasten

Outsourcing sounds great in theory, but often falls short in execution. Here are some pithy insights on what goes wrong… and why.



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Once upon a time it sounded so simple. Just send part of your operations to someone else to deal with and sit back and enjoy your new, streamlined, ever more profitable organization. But those companies that have taken the outsourcing plunge have found that reality is more complicated than theory. A *lot* more complicated. If you're one of them, take comfort in knowing that you aren't alone. If you're considering joining them, you can benefit from studying the challenges that have blindsided your intrepid colleagues.

We've gotten a firsthand look at the problems faced by companies that outsource. If you haven't experienced these problems firsthand, you probably will soon since the reality is that outsourcing is a huge issue (as well as opportunity) for companies everywhere.

Consider the statistics:

• Today, only 19 percent of U.S. businesses have an outsourcing strategy. However, the percentage skyrockets to 95 percent if only Fortune 1,000 companies are considered.

• Outsourcing grew 30 percent a year between 1995 and 2003. Worldwide business process outsourcing (BPO) services—which include finance and accounting activities like accounts payable and accounts receivable—are expected to grow from $110 billion in 2002 to $173 billion in 2007, an annual 9.5 percent growth rate.

• By 2008, the outsourcing market is expected to grow to over $500 billion, of which nearly $380 billion will be information technology outsourcing (ITO), with the balance being BPO. This is up from $335 billion in 2005.

• Approximately 36 percent of the overall outsourcing activities are occurring in the manufacturing (manufacturing, transportation, retail and communications) industries.

Outsourcing continues to experience double-digit growth. Yet outsourcing providers are facing lower profits, shorter contracts, and unhappy customers. And few of the $100 million deals signed will generate the expected revenues. Why? Because, at its core, the outsourcing industry rests upon an old business model based on inflexibility and cost reduction that doesn't account either for the predictable patterns of technology adoption or for the demands customers face for providing more "value" and "service" rather than simply reducing costs for *their* customers. Times have changed; customers have changed; markets have changed. But the underlying logic of outsourcing contracts, and relationships, has yet to change.

Here's the gist of the problem: Once the work leaves your organizational walls, you lose visibility—and some say control—over what gets done how and by whom. In other words, you run, immediately, into the "execution gap"—the difference between what *needs* to get done and what actually *does* get done.

Consider the following 10 lessons that we learned about the challenges and difficulties of global outsourcing (excerpted from *Get It Done! A Blueprint for Business Execution*):

1. IF IT LOOKS TOO GOOD TO BE REAL… IT PROBABLY IS

At least 50 percent of outsourcing deals "fail" (don't return the results promised to customers) and 80 percent don't produce any savings at all, according to the Gartner Group, an industry analyst. Forrester Research, another industry analyst group, recently reported that more than 25 percent of North American customers are dissatisfied with their outsourcer's ability to hit cost and service level agreement (SLA) targets, while 69 percent of European customers reported failure to meet expectations for innovation. The key reason? Lack of contract flexibility and the one-size-fits-all approach. The world changes; customer needs change; technologies change. What doesn't? Too frequently, the answer to that is outsourcing contract terms. Outsourcers (understandably) try to lock customers into long-term deals based on contract terms and pricing that will be out of date six months after the contract is signed. The result? Frustration, irritation and a sense of impotence regarding lack of understanding and insight into why the sales promises of outsourcing aren't meeting up with its delivery realities.

2. TOO MANY OUTSOURCING DEALS SUFFER "DEATH BY CHANGE ORDER"

Here's what happens: Outsourcing firms don't always do their homework up front in regard to understanding their clients' processes. Thus, they underestimate the amount of work it will take to meet their promises. Often this is an honest mistake, but other times outsourcers may underquote on purpose, just to get the business. Then, when they get further into the contract, they say, in essence: "Circumstances have changed and we're going to need more money." Naturally, customers aren't happy about it, but because they have so much invested in the outsourcer they have little choice but to pony up. When change orders occur several times over the course of the relationship, irreparable damage may occur. Companies lose profits, yes, but they also lose faith in their outsourcing firm… and what is supposed to be a fruitful partnership goes sour and possibly even comes to a bitter end.

3. THE PREVALENT "CORE VS. CONTEXT" APPROACH IS BECOMING OUTDATED

The "core vs. context" argument states that companies should focus on what is "core" to them—things that directly impact shareholder value or that customers care about—and outsource everything else. Examples of "core" things would be R&D—or any type of new product or service innovation—and "context" things would be customer service (call centers) or accounts payable and accounts receivable. This distinction may have worked in the past, but today? We don't think so. Underlying the "outsource context" chant has been that you had to know only that the service was being provided to you and your customers, but not necessarily how it was being done; after all, if customer service calls were meeting their targets in terms of number of calls taken and number of complaints resolved, then all is good, right? Wrong. Dell Computer had to take back its outsourced customer service centers because of the huge number of customer complaints they were receiving about it—and the drop-off in number of additional sales that usually accompanied customer service calls. And, on the "core" side, Procter & Gamble, known for its innovative product design, has now "outsourced," or more appropriately "co-sourced," its product innovation process—for a simple reason. Procter & Gamble has 1,500 "product designers"—those people who come up with new product ideas—but the world has 15,000 of them. So, P&G, realizing 15,000 people devel-

Once the work leaves your organizational walls, you lose visibility—and some say control—over what gets done how and by whom. In other words, you run, immediately, into the "execution gap"—the difference between what needs to get done and what actually does get done.

oping product ideas would far out-innovate/out-create product ideas than could 1,500, created a co-sourced innovation model with product designers around the world—harnessing the brainpower of people well outside their organizational walls. Recognizing that such new models of innovation and strategic value are occurring quickly and all over the place, forces all of us to re-consider the role, impact and type of "outsourcing" relationship that makes sense.

4. THE CONTRACTUAL CRUNCH AND WIN-LOSE CONTRACTS HAVE UNINTENDED CONSEQUENCES

Early on in outsourcing, it was easy to take out costs from redundant processes and locations and bloated technology areas. But lately, it has become harder to deliver the savings promised for a few reasons: 1) the easy fat was cut because of the wrenching margin and competitive pressures that just about all industries have been under the past five years; 2) companies learned lots about what to do and how to do it—before they handed over their processes to outsourcers; and 3) companies learned about service level agreements (SLAs) and the use of "change orders" that "put the squeeze on their customers" for more money as a means to cover up their poor scoping capabilities of bidding and running the jobs in the first place. With what result? Outsourcing has become more difficult to support because the processes are leaner than before, leading to more contentious contract negotiation and focus on tight SLAs, resulting in an inherent "I've-gotta-win-and-you've-gotta-lose" approach to contract negotiation. In the short term, one party "wins" and the other party "loses." But in the long term, *everybody* loses. The animosity, frustration and bad-mouthing that result are incompatible with what was supposed to be a mutually beneficial partnership.

Make sure you understand your own business inside and out before outsourcing. After all, "making visible what is invisible" is essential to running your business and to ensuring effective outsourcing that juggles minimizing your costs with maximizing your value.

5. WHAT YOU DON'T KNOW *WILL* BITE YOU

It sounds simple: Outsource all of your business processes and applications so you can focus on other things. But reality is always more complex than it appears on the surface. There are many "invisible" factors—and activities—that outsourcers don't, indeed *can't*, know about when they're taking over your processes. For instance:

- The "exceptions" that have to be handled by, let's say "Betty" and "Michael," because the computer application can't understand them—a signature is illegible, or the check bounced and has to be tracked down, or the oil heating cost doesn't match what the invoice said it should—so it has to be reconciled for this particular customer that Betty and Michael have dealt with before.
- The "workarounds" added or new features that were never documented but are now part of the computer application.
- The "we've-always-done-it-this-way-because-it-works-better" activities that only Betty and Michael know about because they've been here for 20 years.

It's these "invisible" things that keep the processes and applications running. And being invisible, these workarounds—both manual and automated—are hard (and nearly impossible) to identify when the outsourcing firm takes them. Companies discover these unseen factors after it's too late—after customers complain, after frustration has exploded on both sides, after the outsourcing partnership is damaged.

6. OUTSOURCERS BUILD IN A LACK OF TRANSPARENCY—THE "BLACK BOX" OF COSTS AND MARGINS.

Watch my lips, not my hands—says the magician as she moves quickly to hide what she's really doing. Not so different, really, for those outsourcers who try to hide their overall margins and give themselves more flexibility to be profitable over the life of the contract. Understandably, outsourcers are worried about being commoditized; the pressures and number of competitors are always increasing. So, what do they do? They provide a vast range of consulting services, application development, solution deployment and project management—all grounded by lots of "change orders"—into the complex contract. Since different services have different costs—and different margins—the outsourcer can use (or just *say* he used) the ones that benefit him the most. After all, when you have lots of people in your business (from the outsourcing firm) or they say they have lots of people elsewhere doing your business activities, how do you know what they are doing—and how much they charge? Can you know what you don't see?

7. IT'S EASY TO UNDERESTIMATE THE BULL'S-EYE EFFECT

Lots of stuff has to get done to outsource a business process. This "stuff" ranges from simple things (moving equipment) to hard things (consolidating computer applications) to really difficult things (moving and retraining people). What's more, it all has to come together just right to create "the perfect storm." Or as Trevor Davis, the chief implementation officer of one of the world's largest business processing utilities, puts it, "It's like hitting the bull's eye with parallel darts thrown with both hands." And if that's not troublesome enough, if one thing goes wrong, it has a "cascading effect" on other things. If you don't get people trained, then customer service calls don't get answered in a timely fashion and the service level goes down. If the service level goes down, customers defect. And so on, and so on, and so on.

8. COMPANIES ARE STARTING TO REJECT LONG-TERM CONTRACTS

In the beginning, long-term contracts seemed to make sense. After all, it takes a long time to get a new company up to speed and operating efficiently. Besides, such contracts appear to offer better rates. But companies are wising up. They're realizing that getting locked into a five-year contract—complete with inflexibility, broken promises and non-stop change orders—may come back to bite them. The proof is in the numbers. According to TPI, one of the outsourcing industry's analysts, 38 percent of the total global outsourcing contract value in 2005 was from existing contracting restructuring; only 62 percent was new contract value. In other words, companies were so unhappy with their existing contracts that they went through the cost, time, frustration and disruption to change them, many of them with shorter timelines. Unfortunately, the smaller, shorter-term contracts companies have started to favor come with their own problems. Having to deal with more providers inevitably sucks up valuable (and already scarce) management time. Damned if you do; damned if you don't.

9. OUTSOURCING FIRMS ARE SUFFERING FROM THE BOTOX EFFECT

There's a reason Barry Manilow and Mary Tyler Moore can't smile anymore without making it painful for us to watch. Botox takes out their wrinkles but inhibits normal facial expressions. This isn't so different from challenges outsourcing firms face as they get into the "upgrading" portion of their contracts. Around year three to five, they were supposed to have taken out lots of the "easy" process-based costs and added in the simple automation they promised. The problem is, they discover lots of "gotcha stuff" they didn't know about back when the contract was signed. Turns out, they oversold. The "technology refresh" is a lot more expensive than they thought—and they've got so many operational challenges and cost pressures just to keep going ("keep the smile on") that they can't afford to do the promised investments when they promised to do so. They've become inflexible. They push out the timeline for the technology refresh. They smile, but it's an artificial one… and the change orders keep on coming.

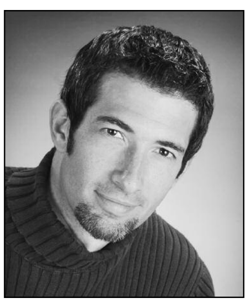
10. ALL CUSTOMERS WANT IS A FLEXIBLE, INNOVATIVE PARTNER—BUT THEY USUALLY GET THE OPPOSITE

Companies are straightforward: They want a flexible outsourcing partner who will introduce innovation into their processes, help them manage both costs and service, and use relevant and emerging technology. Oh, and they also want someone who will truly understand their specific requirements and their business—with a level of confidence and transparency to know what to look for in the business so the "gotchas don't get 'em." After all, if the outsourcer loses money, it's likely the company will, too; a win-lose contract doesn't help anyone in a long-term relationship. But outsourcers tend to offer their standardized technology and processes—better suited to the "industry laggards" or "mature marketplace" rather than to those who want to use outsourcing creatively, the early adopters or fast-moving dynamic companies. Outsourcing firms tend not to meet many of these requirements: 1) flexible infrastructure; 2) means to understand the business and the process exceptions, workarounds and embedded business logic that drives them; and 3) innovative in terms of business arrangements and using emerging technologies.

Overcoming the Challenges

So in the face of all these challenges, how can companies ever "get outsourcing done"? There are certain steps you can take to minimize the pitfalls and maximize the opportunities. Outsourcing is here to stay; it will change, evolve, mutate. And knowing that it will do so—helping "make sense" of these changes and the opportunities—is critical to helping companies "take action" on them. But the single most important thing you can do, the thing that underlies everything else, is just this: know thyself. Make sure you understand your own business inside and out before outsourcing. After all, "making visible what is invisible"—your workarounds and exceptions, your modified technology applications and tools, your "organizational wisdom" that resides in the heads of Betty and Michael—is what is essential to run your business and to ensure effective outsourcing that juggles minimizing your costs with maximizing your value.

Blueprint your business processes to get visibility into what's really going on. You need to know what connects with what, where, when, how and how much. There are far too many potential pitfalls and risks—as well as real jewels and innovation opportunities—for you to not have this type of visibility. After all, the outsourcing game is no longer just about reducing costs; it's also about creating value. It's no longer an "either-or" game. In fact, one of the most compelling and exciting opportunities around global outsourcing is precisely that new business models and forms, collaborations, and delivery options exist that can be, and need to be, understood to ensure that you're outsourcing: a) what you should, b) when you should, with a full understanding of, and c) how you should. ■



GREG LEVIN

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Call Center Recall: Bringing Outsourced Operations Back In-House

by Greg Levin

Include clear terms and conditions for "backsourcing" in your outsourcing agreement.

Call center outsourcing relationships are like marriages, and smart companies today are all about the pre-nup.

It's no secret that several star organizations—e.g., Dell, Conseco, Capital One—have had less than stellar experiences with outsourcing all or a portion of their customer contact functions. Consequently, many companies now feel that one of the best approaches when entering into an outsourcing relationship is to plan for the worst—and to put that plan in writing.

Good thinking, says Jeff Kaplan, senior consultant for Cutter Consortium.

"Because of the high probability that an outsourcing agreement will fail to achieve its original business objectives, Cutter recommends all companies include clear terms and conditions for 'backsourcing' in their outsourcing agreements."

Without such a plan in place, terminating an outsourcing alliance can be devastating. "There can be direct business costs in operational disruption and penalty fees," Kaplan explains. "There can also be many indirect costs associated with the damage done to a company's reputation and corporate relationships with its customers, partners, employees and investors."

Kaplan is quick to point out that developing a backsourcing plan isn't just for companies going the offshore route; all organizations, whether they are sending customer contacts around the globe or across the street, should evaluate how they can bring their operations back in-house before they enter into an outsourcing arrangement.

Research supports Kaplan's call for backsourcing plans. In a recent study conducted by Deloitte Consulting, 70 percent of respondents reported having significant negative experiences with outsourcing projects and are now exercising greater caution when approaching outsourcing.

Contractual Triggers for Initiating a Backsourcing Plan

BACKSOURCING CRITERIA	FAILURE TO…
Performance	• Achieve service level objectives (SLOs) for system and application availability • Achieve business SLOs related to business process outsourcing (BPO) services • Resolve technical problems within stipulated mean-time-to-resolution parameters • Respond to help desk calls within stipulated timeframes • Update/refresh technology within stipulated timeframes
Financial	• Achieve cost savings • Improve labor/capital productivity
Governance	• Properly report problems and cooperate in problem resolution • Protect proprietary information and privacy standards • Communicate policy or procedural changes

Source: Cutter Consortium, www.cutter.com

Why Companies Get Out of Outsourcing

So what, specifically, is driving client dissatisfaction with call center outsourcing, and the desire to backsource? Here are some of the more common reasons:

• **Performance and quality issues.** Simply put, some outsourcers simply aren't getting the job done—failing to meet the increasingly demanding objectives and expectations that client companies have for their customer care operations. "Decreased quality of service that leads to increased customer dissatisfaction and defections is the most common reason for companies to backsource their call center operations," says Kaplan.

• **Money matters.** Economic and budgetary issues always loom large in any outsourcing alliance, and often clients find that the numbers simply don't add up. More than half (52 percent) of respondents in the Deloitte study ranked cost-related issues as the main risks of outsourcing; 57 percent reported that they absorbed costs for services they believed were included in the contracts with outsourcing vendors.

• **Scalability/flexibility issues.** Sometimes clients grow too big for their outsourcer's britches. While many outsourcing firms are able to effectively respond to clients' expanding workload and/or changes to strategy and business needs, other outsourcers can't due to resource limitations (personnel, facility space, technology, etc.) or strict policies/procedures.

• **Outsourcer viability issues.** Clients aren't the only ones going through changes. The outsourcer itself may choose to, or be forced to, reshape its business due to things like a merger, an acquisition or a new CEO. Or perhaps the outsourcer is on the brink of bankruptcy—a definite hindrance to customer support. "Whether a service provider disappears entirely, is subsumed by another company, or is facing serious financial challenges," says Kaplan, "the impact on its ability to achieve its SLOs (service level objectives) can be catastrophic and create the need for enterprises to make a backsourcing decision."

Cover Your Back(sourcing)

As alluded to earlier, the best backsourcing plans begin prior to partnering with an outsourcer—NOT after a problem with your current outsourcer begins to emerge. To some, this may sound like pessimism; to Kaplan, it's simply smart business. "Outsource with backsourcing in mind," he says.

Through years of experience helping companies determine outsourcing needs, select vendors and draw up agreements, Kaplan and his organization have uncovered several key practices for paving the way to successful backsourcing:

DETERMINE WHICH FUNCTIONS WILL BE OUTSOURCED BASED ON BACKSOURCING CONSIDERATIONS

Companies should identify which contact center functions can be most easily brought back in-house in the event that the outsourcing arrangement doesn't go as planned. "These functions should be able to be transferred to an outsourcer without disrupting the enterprise's ongoing operations," Kaplan says. "This means that the IT systems, software and staff for each function are relatively self-contained."

Companies should document all operational processes prior to outsourcing, and ask the outsourcer to document any system or process changes that take place when the call center is in their hands. This will help to ensure that the company is fully prepared to take back the reins should backsourcing be required.

SELECT AN OUTSOURCER WITH SUCCESSFUL BACKSOURCING EXPERIENCE

This might sound a bit sketchy—after all, why choose an outsourcer that has had clients leave them? The truth is, even the best outsourcers occasionally take on projects that don't work out, and it isn't necessarily because the outsourcer itself failed to perform well. As mentioned earlier, sometimes clients change strategies or experience rapid growth that impacts the effectiveness and/or usefulness of outsourcing. Whatever the case, says Kaplan, "selecting an outsourcing company that has experience with backsourcing and is committed to working cooperatively with the enterprise customer is essential." He adds that if the outsourcer seems reluctant to discuss backsourcing and isn't open to including backsourcing plans in the contract, end the negotiations right then and there.

As part of the outsourcer selection process, Kaplan recommends carefully evaluating how each candidate has handled problems that have led to backsourcing with previous clients. (Contact the previous client and ask them how supportive or adversarial the outsourcer was in carrying out the backsourcing plan). Also, be sure to ask the outsourcer what lessons they learned from each backsourcing experience, and what they have done to address such situations in the future.

BUILD THE BACKSOURCING PROCESS INTO THE OUTSOURCING AGREEMENT

The outsourcing agreement should include a list of all conditions that could trigger your exit from the partnership. (For an example, see "Contractual Triggers for Initiating a Backsourcing Plan" in the box on page 11.) These might include performance problems, reporting and problem-resolution issues, financial issues, etc. (Naturally, the agreement will contain specifics on service level objectives and goals for other key metrics; problem-resolution and quality assurance expectations; technology requirements; timetable and budgetary expectations; security requirements, et. al.)

In addition, the agreement should include an addendum that lists in detail the specific steps that both parties agree to take to ensure the smoothest possible transition once a backsourcing decision is made—as well as a projected timetable for each action. The addendum should address the specific procedures for transferring IT systems, software licenses, staff, facilities and other assets from the outsourcer back to the company. The most comprehensive addendums include a detailed disaster recovery and business continuity plan to ensure that proprietary data and systems are fully protected during the transition process.

Often, outsourcing problems—even those that appear grave—can be resolved, and a healthy and mutually beneficial partnership can resume. To minimize the risk of outsourcing failure and the need to backsource, Kaplan advises companies to include in the outsourcing agreement a collaborative process that will help to remedy issues that could lead to the termination or restructuring of the agreement. Another way that harmony can be restored/maintained is simply by ensuring that the right performance objectives are written into the outsourcing agreement. "With the right performance measurements and reporting systems in place," says Kaplan, "the enterprise and outsourcer should be able to… quickly identify potential problems and trigger problem-resolution procedures to mitigate risks."

To ensure that the outsourcing agreement covers all areas, consider hiring a lawyer or consultant experienced in both outsourcing and backsourcing to help develop and evaluate the contract.

Minimizing the HR Backlash

Though it sounds complex, transferring data, systems, procedures and equipment back to the call center is actually the easy part of backsourcing. Applications, data and documents don't have feelings; they don't develop sentiments of insecurity and mistrust when a company decides to bring business back in-house after an outsourcing venture ends; and they don't need to be interviewed, assessed or trained to ensure that they are qualified to do what they are supposed to do.

To help minimize and overcome the HR-related challenges that arise when a backsourcing plan is carried out, Kaplan advises companies to do three things: 1) Maintain a positive relationship with former employees in case they are needed in the future as part of a backsourcing arrangement (this includes employees who were transferred to the outsourcer and those who were laid off as a result of the outsourcing arrangement); 2) include a staff recruitment and training program in the backsourcing plan; and 3) retain sufficient call center managers and supervisors to lead the rebuilding process.

"An essential component in the success of a backsourcing decision is the staff assigned to execute the transition," says Kaplan. "It is very important to quickly determine which staff members on both the outsourcer and enterprise sides will be involved in the transition process and ongoing business functions thereafter. This will minimize staff uncertainty and related productivity and morale issues that can threaten the success of the backsourcing process." ■

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The International Customer Management Institute (ICMI) is one of the call center industry's most established and respected organizations. Founded in 1985, ICMI delivered the industry's first management-level conferences, educational programs and publications.

While ICMI's path-breaking work continues, the mission remains much the same: to provide resources and expertise that help individuals and organizations improve operational performance, attain superior business results and increase the strategic value of their customer contact services. Today's ICMI melds the traditional focus on consulting, training, and high-level engagement with CMP's strength in media and events to create a powerful one-stop-shop resource. Through the dedication and experience of its team, uncompromised objectivity and results-oriented vision, ICMI has earned a reputation as the industry's most trusted source for:

- Consulting
- Training
- Publications
- Events
- Professional Membership

Through constant innovation and research, ICMI's consulting and training services have become the industry's gold standard. ICMI publications, such as *Call Center Magazine* and *Call Center Management Review*, and events, including the Annual Call Center Exhibition (ACCE) and Call Center Demo and Exhibition conferences, continue to lead the industry. And ICMI's growing membership community now includes professionals representing organizations in over 50 countries.

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CALL CENTER TRAINING

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JUNE 27-28, 2006 DENVER, CO
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AUGUST 15-16, 2006 MONTREAL, PQ
AUGUST 15-16, 2006 ST. LOUIS, MO
SEPTEMBER 26-27, 2006 LAS VEGAS NV

Measuring Call Center Effectiveness NEW!
JUNE 8, 2006 BOSTON, MA
JULY 27, 2006 WASHINGTON, D.C.
SEPTEMBER 28, 2006 LAS VEGAS, NV

OPERATIONS

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Implementing Six Sigma in Call Centers—Level 1
JUNE 12-15, 2006 BOSTON, MA

PEOPLE

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PEOPLE AND STRATEGY

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JUNE 20-21, 2006 WASHINGTON, DC

TECHNOLOGY

Contact Center Technology: What Works, What's New, What Drives Results
JUNE 6-7, 2006 DALLAS, TX

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JUNE 27-28, 2006 CHICAGO, IL
SEPTEMBER 26-27, 2006 WASHINGTON DC

Speech Applications: Planning, Voice User Interface Design, and Tuning
AUGUST 21-25, 2006 SEATTLE, WA
SEPTEMBER 18-22, 2006 CHICAGO IL

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Managing Stress in the Call Center
June 23, 2006 11:00 a.m. to 1:00 p.m. ET

CALL CENTER FORECASTING SERIES, 3-PART SERIES

Part 1: The Fundamentals of Success
July 21, 2006 11:00 a.m. to 1:00 p.m. ET

Part 2: Steps to Greater Accuracy
July 28, 2006 11:00 a.m. to 1:00 p.m. ET

Part 3: Effective Approaches and Tools
August 4, 2006 11:00 a.m. to 1:00 p.m. ET

CALL CENTER MONITORING SERIES, 3-PART SERIES

Part 1: Designing Your Monitoring Program
August 4, 2006 2:00 p.m. to 4:00 p.m. ET

Part 2: Setting Results-Oriented Performance Standards
August 11, 2006 2:00 p.m. to 4:00 p.m. ET

Part 3: Creating Inspiring Monitoring Forms
August 18, 2006 2:00 p.m. to 4:00 p.m. ET

Effective Agent Training
August 15, 2006 2:00 p.m. to 4:00 p.m. ET

Time Management in the Call Center
August 22, 2006 11:00 a.m. to 1:00 p.m. ET

Leading Practices in IVR Design
August 25, 2006 2:00 p.m. to 4:00 p.m. ET

Developing Supervisors Who Lead
August 29, 2006 2:00 p.m. to 4:00 p.m. ET

FOR FRONTLINE AGENTS:

The ABCs of Grammar
June 20, 2006 2:00 p.m. to 3:30 p.m. ET

The Agent's Essential Guide to Call Centers
August 17, 2006 2:00 p.m. to 3:30 p.m. ET

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