

## White Paper



**StreetSmart** Call Centre

*Leadership through Breakthrough Business Solutions*

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## The GFC & the Importance of Outsourcing to Lower Costs

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#### **Description:**

The aim of this paper is to provide C level executives with an overview of how outsourcing can assist them in lowering their costs. The importance of outsourcing is defined in the context of the GFC. This paper identifies two types of values that a call centre outsource provider can generate for a company. Examples of typical solutions are provided for each value type. Culture and the relationship with the outsource provider are highlighted as being critical to successful outcomes for both companies.

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## 1 Introduction

The Global Financial Crisis has set the tone for both consumers and businesses alike for the next 7 years at least. Most economic cycles last a term of 7-8 years. The economic landscape appears to be driven by the following key drivers:

### 1.1 Consumers and Corporations

1. Consumers globally have lost their jobs or are currently working for employers that have been adversely affected by to some degree by the financial crisis.
2. Consumers live in a state of fear and apprehension driven by a sense of possibly losing their job or having a household member lose their job.
3. Household spending is reduced as a result of the uncertain economic climate
4. Luxury items are dispensed with, reduced or replaced with smaller "treats"
5. Consumers park more money away for a 'rainy day' in the form of increased household savings
6. Companies experience reduced revenues and growth as a result of reduced consumer spending
7. Companies look inwards to increase their earnings to meet shareholder demands as external growth becomes more difficult and costly
8. The cost of new business will be driven by low cost high ROI campaigns
9. Risk management will play an important and critical factor in all decision making
10. Companies will focus more on low risk initiatives to drive earnings. The most lucrative initiatives will be cost-cutting of General and Administrative expenses, followed by reductions in Cost of Goods/Services Sold.
11. Cost cutting initiatives involving outsourcing and offshoring will become important considerations in most mid to large companies
12. Low risk business processes will become the "low hanging fruit" for outsource providers
13. Moving fixed costs off to variable costs as a percentage of sales will become a favoured option by finance departments
14. Reducing CapEx for technology, infrastructure and equipment will become a key theme.

Outlined below is summary of market research undertaken by Convergys and Call Centres.net in February 2009 regarding the impact of the GFC and the outsourcing imperative in Australia:

1. Almost 7 in 10 organisations in the study already outsource and one in five offshore.
2. As a result of the GFC, Australian organisations are faced with increased pressure to retain and acquire customers, reduce cost, generate revenue and optimise technology.
3. Over four in ten respondents will outsource and one in ten of these respondents are considering outsourcing a customer interaction process in the next two years
4. In particular, outsourcing of business processes is seen as an effective strategy to reduce operational and human resource related costs. Outsourcing may also reduce productivity challenges and the need to have advanced technology.
5. About half of the work outsourced may be located offshore in traditional markets such as India.
6. The loss of control and the difficulty and time required to manage the outsourced vendor is seen as the greatest barrier to outsourcing and offshoring.

### 1.2 The Role of Government

Governments have played an integral role in defining the future marketplace place by taking affirmative action to address the pressures of the GFC:

1. Government's globally have extended account deficits by spending extraordinary amounts of money to either salvage failing companies and/or to stimulate the economy to kick-start the flow of currency and unfreeze credit markets.
2. Governments around the globe will be facing massive amounts of debt which will be exacerbated as corporations pay less tax because of reduced earnings.
3. An aging baby boomer generation will be placing greater pressure on public services such as health and pension funding of retirees
4. High unemployment rates and high debt will lead to inward looking strategies such as domestic policies to encourage local jobs and campaigns centred on buying local products and services.
5. Governments will be forced to outsource to domestic providers that have innovative solutions to reducing high costs of services such as health.
6. More funds will be made available for retraining of unemployed workers.
7. Departments will be forced to accomplish more with less budget funds
8. Low risk technology based solutions rather than straight out outsourcing are likely to be more readily accepted
9. Customer contact will shift to non-retail contact to web, phone and self-service channels
10. Infrastructure spending will increase to help employment growth
11. Governments will seek to increase taxes on luxury items, taboo products such as cigarettes and services will be increased via levies.

This paper does not claim that outsourcing in general can address these issues for a company. It focuses more on the type of outsource provider and the relationship it develops as being the critical components to making outsourcing an effective solution in addressing the pressures of modern call centre professionals.

## 2 Understanding the Value

This paper focuses on the value of reducing costs through outsourcing. This is only part of the equation used to understand the value of an effective outsource solution. Reducing cost alone should never be the reason why a company outsources any or all of their Call Centre. Adopting this paradigm alone is dangerous and is likely to create more problems and dissatisfaction with outsourcing as a concept. Measuring dollar for dollar costs of an existing service and the outsource provider is important, but only two-dimensional. To get a robust three-dimensional view of the solution and the benefit to the organisation you will need to measure the 'above the line' (ATL) value that is provided with the right outsource provider.

'Below the line' (BTL) value is easy to measure, simply needing some factual figures and a good spreadsheet. ATL value is unique to every company and can only be measured by understanding the business drivers affecting the business. These drivers are properly understood when communicated to the call centre professional who is then empowered to make the necessary changes. In Australia, we are beginning to see more Call Centre professionals actively involved with driving the success of the company itself rather than simply the operations of the call centre.

StreetSmart Group uses a methodology to identify the below and above the line values for every company. By conducting a number of workshops the key drivers identified are matched with a unique solution that can achieve measurable and sustainable value to the organisation. StreetSmart Group aims to properly understand the clients' Key Performance Indicators and any other measure of business performance, to demonstrate how the solution will positively affect them.

A careful balance is required between BTL and ATL values which is achieved by prioritising the drivers of the company. Initially, call centre professionals may not see the need to work with an outsource provider as the concept of outsourcing often meant loss of control, reduction in quality, and increased cost. These perceptions have changed over the past decade and are losing momentum as other types of outsourcing like Information Technology have become widely accepted. The key to accepting call centre outsourcing as a viable solution is to understand the value that it can bring to the client's company.

Outlined below are examples of three types of BTL and ATL values that an outsource provider can achieve for a company:

Below the Line:

1. Reduction of operating cost
2. Reduction of set-up charges for new or growing services
3. Improvement of cash flow

Above the Line:

1. Establishment of service as a key differentiator for the company
2. Increase of revenue and retention for the company
3. Increase of focus for Company's core competencies

These values are not new nor are they specific to outsource providers. Call centre professionals can deliver these values from an in-house call centre, however there are some distinct advantages in working with the right type of outsource provider to deliver or exceed these same values.

As mentioned in the introduction **the key is to work with an outsource provider who can offer your organisation leverage from years of experience and expertise gained by focusing on one single competency: delivering call centre solutions.**

### 3 Below the Line Values

These types of values can be measured by examining the direct costs associated with delivering a service. They are often transparent and can be evaluated by examining financial data. These values typically constitute the strongest drivers in a company as to whether the company should outsource a component or the entire functions of the call centre. Unfortunately, this perspective alone can lead to poor decisions when selecting the outsource provider and prove costly in the longer term.

Outlined below are examples of solutions that an outsource provider can deliver to an organisation to satisfy the business drivers and achieve measurable value:

#### 3.1 Expected Value: Reduction of Operating Cost

##### **Sample Solution: Knowledgebase Implementation**

It is estimated that approximately 70% of all call centre operating costs are directly attributed to labour. There is no denying that this can be a heavy burden for any company that is not properly utilising this labour pool. There are several strategies that can be adopted to reduce this operating cost. To identify which strategy to adopt the company should begin with examining how well aligned the core elements of the call centre are with the objectives of the business:

## Lowering Call Centre Costs through Outsourcing

- a. people
- b. process
- c. technology

Once gaps are identified it becomes a matter for prioritising the strategies in terms of time frames and then project managing the changes to be undertaken. It is critical that these changes are supported at the highest levels within the company and that all key stakeholders are aware of the changes to be implemented. The underlying reasons for the change and the consequent benefits must be properly defined to ensure a successful project outcome.

There are a number of accepted industry practices that help reduce operating costs. Some of these are:

- a. better staff rostering through workforce management systems
- b. consolidation of call centres to create larger pools of agents and leverage from economies of scale
- c. relocate the call centre to a lower cost base that offers lower operating costs
- d. implement a home agent model
- e. reengineer processes to streamline operations
- f. utilise self-service technologies to manage repetitive calls

Each one of these solutions would constitute a White Paper on their own. There are many factors to consider and return on investment (ROI) calculations to measure. An expert outsource provider can assist an internal call centre with all of the above solutions. Another solution, not widely publicised but has been utilised by StreetSmart Group, involves knowledgebase management. This solution, when properly implemented, can yield significant cost-savings.

Labour costs in a call centre are directly contributed to the length of a call and the volume of calls. A sound knowledgebase solution can provide the call centre with reduced call handling times and reduced volumes. This is achieved by providing the agents with a single repository of information. If properly designed and maintained on a regular basis the knowledgebase can be a powerful tool to the call centre agent, providing easy access to information and a faster response to caller's questions. The value of a knowledgebase is best realised in call centres that cater for a variety of different users and provide information about a diverse number of subjects. Typically, call resolution rates increase as callers are able to receive answers the first time as opposed to receiving the wrong information or having their queries escalated. Call volumes can also decline as a result of increased first resolution rates.

**The knowledgebase solution is only effective in reducing operating costs if there are disciplined processes to ensure that the information is current, accurate and easily accessible.** When recently implemented at StreetSmart Group the call centre was identified as the best place to retain the knowledgebase and ensure it remained current. The technology, whilst

important, is only half the equation for the solution to pay dividends. The critical aspect of the technology is in its ability to accept documents of any format. A proper corporate knowledgebase will collect information from a diverse range of departments and must be incorporated into the knowledgebase without the burden of a laborious administrative process. Similarly, call centre agents will receive questions from callers that are not in the knowledgebase and this will need to be added and checked for accuracy.

The cost-savings for this type of solution can be numerous. The key ones that were identified in a recent installation were:

- a. A reduction in operating costs of 15-20%
- b. A reduction in call centre training of new agents by 50%

The next phase for this type of solution will be to provide the knowledgebase in a format that will lend itself to self-service. This should further reduce call volumes and operating costs. As a consulting and management partner StreetSmart Group has the expertise to be able to implement a longer-term cost reduction strategy that has both below and above the line values to the company.

### 3.2 Expected Value: Improvement of cash flow

#### **Sample Solution: Co-source or joint-venture engagement models**

Cash flow may be an issue for an organisation that is competing in an aggressive and highly competitive marketplace. Shareholders are often placing pressure on senior managers to reduce costs and fund growth organically. This may prove to be difficult if the company is struggling with low margins and heavy fixed costs. One of the burdens of operating a call centre is its high consumption of labour, technology and real-estate resources. These fixed costs and necessary resources can be disposed of completely by outsourcing the entire call centre. This will effectively reduce fixed costs, head count and technology expenditure. **A complete outsource of the call centre is likely to yield between a 20-30% cost saving on operating costs to the company.** Consequently, this will ensure cash flow and fulfil financial performance measures, keeping shareholders happy.

Companies may not wish to completely outsource their entire call centre for a number of reasons. They may only wish to reduce the cost of real estate, technology and the support provided for both. This can be achieved through a co-source or joint-venture model. In a co-source model the client is provided with only call centre infrastructure and support. They manage the service using their own call centre staff. This ensures they have control. However, this is only feasible if they have the expertise themselves. Adopting this model releases the company from the burden of some of the fixed costs associated with operating a call centre whilst still retaining operational

control. The need to return the service back in-house is often not considered as there is usually no business case to justify the move from a co-source arrangement.

A company can save between 10-20% of operating costs by adoption of this model. On a large scale this could represent a saving in excess of \$1,000,000. This improvement to the cash flow and the removal of debt and fixed costs from the balance sheet is an important financial strategy that can yield positive benefits to any large organisation wishing to become more competitive in the marketplace.

### 4 Above the Line Values

Above the line values can be less transparent, harder to measure and less convincing in Board room presentations. However, this does not make them any less tangible than below the line values. **These values have greater merit over the longer-term to a company. They can greatly increase brand equity, competitiveness, customer advocacy and customer profitability.** These values are becoming more widely known as call centre professionals enter the realms of managing the business outside of the call centre. These values are slowly becoming accepted in Australian business as senior executives become more aware of its significance to their organisations. Companies in the US and the UK have already undergone this transference of knowledge and trials have yielded positive results. Internationally, Australia still lags in its acceptance of above the line values that can be delivered to the overall business from the call centre.

Above the line values need an internal champion who understands and believes in the merit of making changes together with the call centre. A specialist outsource provider can work with the champion to add weight to the argument and to educate the senior executives of the value to the organisation. Often, these changes require additional expenditure and reallocation of budgets. Approval is usually conditional on the success of a pilot, to test the business case.

Outlined below are three examples of above the line values that can be provided by working with a specialist call centre outsource provider:

#### 4.1 Expected Value: Establishment of service as a key differentiator for the company.

**Sample Solution: Re-align call centre culture to meet customer value expectations.**

There is strong evidence that companies can create a competitive advantage by establishing service as a point of differentiation. **Kramer and Associates highlight that 60% of the 1975 Fortune 500 have disappeared from the list.** They have been replaced by companies that have made it

easy for their customers to do business with them. These best of breed companies have aligned their internal processes to ensure effective delivery of products and services that are supported by excellent customer service.

Customer expectations are escalating as competition in markets intensifies. Most companies barely provide good service let alone service that exceeds customer expectations. Customer satisfaction is no longer measured immediately after the sale. Every touch point in the delivery process of a product or service and beyond to the second and consequential purchase becomes a true measure of customer satisfaction. A true understanding of the processes that affect the customer is critical to devising a call centre solution that will assist in providing excellence. Each process needs to be mapped and the relationship existing between each one properly understood. Customer value can only be provided when it is understood what the customer expects during each process.

The call centre provides a controlled environment to enable a company to standardise the level of service it provides during every customer contact process. This enables the call centre to take on a strategic role in the organisation by becoming the custodian of the customer experience. **An interesting study conducted by the University of Michigan has linked shareholder value to customer satisfaction known as the American Customer Satisfaction Index (ACSI).** This forms part of the growing evidence highlighting that it is no longer sufficient to provide “good enough” service. The level of service required to stand out from the competition has to be exceptional.

The solution to raising the service level bar begins with culture. The process mapping and technology will provide very little value if the organisation and the call centre do not have the right culture and environment to deliver exceptional levels of customer service. Changing culture can take years and become a very costly and painful exercise.

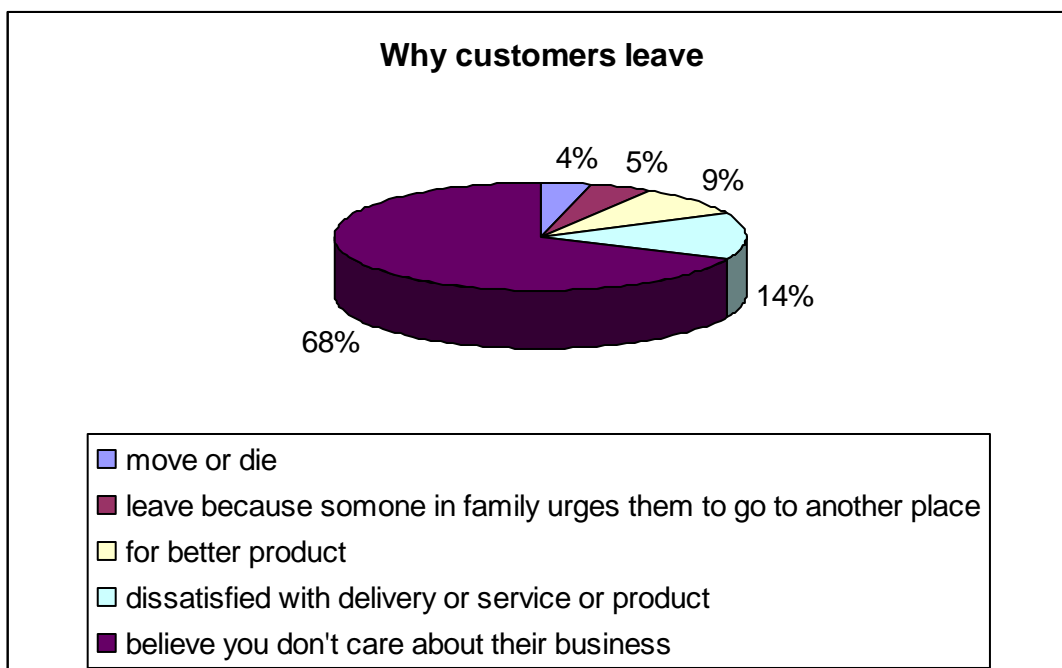
Companies that understand the effort involved in changing their internal culture chose the alternate path without hesitation. This involves outsourcing to a provider that has already invested heavily to create the right culture within the call centre. The value of culture can not be underestimated and will ultimately determine the success or failure of any service improvement initiative.

**By embarking on a project to make customer service a differentiator the company is at the same time undertaking a project to convert the call centre from a cost centre to a profit centre.** Increased sales, profitable customers and greater retention of customers are all the by-products of making customer service a point of differentiation.

## 4.2 Expected Value: Increase of revenue and retention for the company

### **Sample Solution: Contact management program for the lifetime sales cycle of the customer**

Smart companies understand that it is much easier and cheaper to sell to existing customers than it is to find new ones. The irony is that very few companies allocate a budget to retaining customers as they do to finding new ones. Companies will spend millions on above the line marketing in traditional media such as television and print and very little on understanding and mining their database and communicating with their existing customers. This trend is largely attributed to levels of ignorance amongst senior managers about the value of regular and coordinated communication with their customers. The Rockefeller Institute conducted a study identifying why customers leave an organisation and go to the competitor. **The results showed that 68% leave because they felt that the company did not care about their business.** This is strong evidence, highlighting the importance of a carefully planned care program during the lifetime sales cycle of a customer.



Companies need to begin by understanding how frequently a customer is likely to purchase their product. This measurement is usually known as the Life Time Value (LTV) of a customer. A contact program needs to be mapped once the cycle is understood. Each contact must have relevance and value to the customer. Identifying the most appropriate medium is also important. A voice call, whilst more costly than an SMS, has far greater impact and relationship building capabilities than other mediums. The cost needs to be proportional to

the value of the customer and the goods or services sold. For example, 10 contacts over a 3 year period at a cost of \$80 to generate a \$50,000 sale is money well spent.

Outsourcing can play an integral role in making this type of program work. The internal call centre of a company is usually focused on day-to-day calls from customers and does not have the capacity, resources or technology to conduct a regular contact management program. StreetSmart Group has developed programs for vertical industries that enable a company to effortlessly increase their retention rates and revenues per customer without the need to re-design their call centre or purchase new technologies.

### **5 Expected Value: Increase of focus for Company's core competencies**

#### ***Sample Solution: Outsource transactional calls to a lower cost base***

There has been much written in the business world about the benefits of focusing on core competencies and the importance of allocating resources to these competencies. The push over the past decade has been to outsource non-core activities to ensure the company can "stick to its knitting". The theory suggests that a company will become better at delivering products and services if it channels most of its energies into making those products and services and the processes surrounding its delivery more attractive than competitors. This theory has been proven time and time again with the rise of a number of smaller companies that have eroded market share from larger competitors. Their singular focus in producing better products and services at lower costs has only been possible because of their relationships with external outsource providers.

Strategic outsourcing is all about being able to leverage off the core competencies of the outsource provider to gain a positive business outcome. Outsourcing internal problems to another provider will only pass this problem on without resolution. Often clever start-up companies will outsource their non-core processes rather than attempting to do it themselves. This prevents having to deal with the added complexity of fixing problems before handing business to an outsource provider. One of the drawbacks of being a well funded company is that they feel almost compelled to do everything in-house and hire lots of staff in the process. The attitude that money is not an issue as there is plenty more at their disposal is their Achilles' heel. Once there is an economic downturn or sales are lower due to competitor activity the company is forced to re-visit its strategy. Often this will lead to downsizing and ultimately to outsourcing of non-core activities.

'Best of breed' companies understand this paradigm and address non-core processes before they become a burden. Outsourcing transactional calls to the call centre is one solution that will assist in helping the company regain its focus. These types of calls are considered low value to the organisation and therefore a low risk option in outsourcing. **It is estimated that approximately 80% of all calls entering an organisation can be classified as transactional to some degree.** The first step in determining which calls should be outsourced is to identify the various call types and the value they have in affecting business outcomes. Change of address or receptionist based calls are examples of call types that are considered transactional. Other call types may appear transactional but can offer a sales opportunity that can lead to positive growth for the company. An example of this would be a literature request call. By working with an experienced outsource provider the company can leverage from the call centre's knowledge to better understand the various call types they are receiving and the best way to manage these calls.

Companies can receive a double bonus when they outsource to a provider that has a lower cost base. There should not be an issue with the geographical distance of the call centre as these types of calls are transactional in nature and usually do not require agents to be trained on a regular basis. **By outsourcing transactional calls to a lower cost base provider the company is able to reduce costs and also channel energies and resources back into core activities.** Consequently, this should lead to better business performance.

## 6 Cultures and Relationships

This White Paper has highlighted how the GFC will require companies to seek out outsourcing arrangements that will reduce operating costs and also help maintain existing clients. Generally, call centre outsourcing can reduce costs and provide value back to the company if the right outsourcing arrangement and partner are selected. Two of the critical components in making outsourcing work beyond the solution or cost-saving are:

- 1. Matching the culture of both companies**
- 2. Effective management of the outsource relationship**

Over the years I have adopted a principle of never doing business with people I was not comfortable with, no matter how good their product or service was. This subjective principle has worked for me. I am confident that the future will see more research and evidence highlighting the importance of these two subjective components in outsourcing. Outsourcing is all about how two organisations with different areas of

competencies unite for mutual benefit. The important point is that companies are comprised of people and not products or services. People determine the success or failure of a company.

Call Centres are all about people and their interactions with others. Culture plays an important role in determining the quality and type of interaction. Similarly, the relationship the company has with the outsource provider can not be a master/slave situation. A spirit of cooperation, clear understanding of expectations, and regular communication is required to make the outsource solution work. **Finding an outsource provider that has the right cultural match and managers that are like-minded is more important than the solution itself if outsourcing is going to work beyond the first week.**

## 7 Understanding ROI

Return On Investment (ROI). These three words have become the latest buzzword in outsourcing. Everyone talks about ROI when discussing outsourcing. IT vendors regularly boast how their product has a higher ROI in a shorter time than their competitor. Vendor comparisons in IT are being reduced to ROI comparisons. Call centre outsourcing needs to demonstrate an ROI but companies must not fall into the IT Vendor trap and compare call centre outsourcing in the same manner. Understanding call centre outsourcing ROI is important in making an effective business case to senior managers of an organisation.

Below the line value solutions have clear and measurable ROIs. They tend to be short-term gains and therefore more palatable to an organisation experiencing immediate pain. Above the line value solutions are likely to have longer-term ROIs but a greater yield to the organisation. **A proper understanding of the two forms of ROIs is integral to presenting the overall strategy to senior managers of the organisation and to get their buy-in and approval.** A balance between the two is often necessary to produce a sustainable result to the business.

## 8 Conclusion

Outsourcing will become a critical consideration for many companies as a result of the GFC and the subsequent actions of consumers and governments. Call centre outsourcing is not simply about finding a provider with the lowest cost to meet a set of requirements. Finding the right type of provider and forming a strategic relationship to provide value to the organisation is an integral component to call centre outsourcing. The provider needs to be able to demonstrate that they can provide

unique solutions that address both below and above the line values to the organisation.

**A reduction in costs can be achieved by working with an outsource provider has the right cultural match and has formed a sound working relationship with the key stakeholders.** An internal champion and support from senior managers is essential to making the project a success for a company.