



*Stephen Loynd*  
*Program Manager, Contact Center Services*

## **Business Process Outsourcing in a Down Economy — Part II**

*April 2009*

*The unstable business environment IDC spoke of in last year's competitive landscape report has become even more unstable in 2009. The United States has officially been in recession since December 2007 due to a housing downturn and attendant credit crunch. Recently, José Manuel Barroso, president of the European Commission, stated, "There is no doubt we are living through the greatest financial and economic crisis in living memory." How so? Despite recent gains, stock markets across the globe saw dramatically sharp declines over the past year, and oil prices crashed along with worldwide demand. The negative economic and geopolitical effects have buffeted societies from the United States and Latin America to Europe, Asia, the Middle East, and Africa.*

*If late 2008 and early 2009 have indeed been the winter of our global discontent, what does the future hold for customer care service providers and their clients? Generally speaking, IDC believes that this economic downturn will accelerate growth for the business process outsourcing (BPO) industry. Just as necessity is the mother of invention, we just might emerge from this era with new approaches to business — positive adaptations that were born of challenge. At the same time, there remain certain risks associated with BPO, particularly as countries experience a dramatic rise in unemployment the world over. "Outsourcing" tends to receive all kinds of negative blowback as unemployment climbs, even when so much of the anti-outsourcing talk is derived from myth.*

*To help dispel some of the confusion that swirls around the world of BPO, outsource service provider Sitel posed the following questions to Stephen Loynd, program manager for Contact Center Services research at IDC.*

**Q.      How is the economic environment affecting companies' decisions to outsource?**

A.      Obviously this environment is a turbulent one. As a result, more than ever before we're seeing that outsourcing decisions are emanating from the highest levels of organizations (i.e., CEO, CFO, and members of the board). Decision makers are not only keenly aware of their companies' financial health, but there is a growing awareness of the importance of providing a high-level customer experience, which in turn directly impacts a company's reputation. Leaders also want to make sure there are no negative impacts as far as public relations go; they have to ask, "What will the wider political and economic impacts be in the local areas in which we operate if we decide to pursue this strategy?" This has resulted in some companies deciding on a domestic sourcing strategy versus sending the work offshore.

Moreover, in many cases, larger buyers of BPO services are asking for more risk sharing, embedded within comprehensive solutions. At the same time, potential buyers are looking for partners that can help them reduce client attrition; the need to retain business has gained

new importance. Buyers' sourcing preferences also are focused on leveraging best-in-class providers, with the majority of buyers willing to take advantage of global sourcing (i.e., offshore resources).

This is another way of saying that new models are being considered, especially in the wake of considerable consolidation. Whether it be the movement from captive resources to an outsourced model or "rebadging," IDC is seeing companies looking to best leverage their buying power by reorganizing and restructuring both their human resources and physical assets. Indeed, today, downsizing firms are creating a dynamic where there are fewer employees to support. New to this equation is the potential increase in larger companies looking to make use of the emerging model of "hoteling," in which a company provides employees with office space on an as-needed basis rather than dedicating office space to each worker. This may provide an opportunity for outsourcers to not only help customers in an emerging area but also implement newer types of services, particularly utility-based services (e.g., cloud/utility computing and software as a service [SaaS]).

These are some of the forces that are reinvigorating opportunities for outsourcers (the velocity of RFPs that providers are seeing appears to be increasing). Meanwhile, many potential buyers are considering how work might be taken offshore to cut costs quickly rather than easing into outsourcing through domestic outsourcing. This is another way of saying that customers are pursuing what might be termed a series of "quick hits." Buyers of BPO services appear to be looking more toward short-term gains in the context of a longer deal. These gains tend to focus on areas of operational excellence, customer retention, effective revenue management, and increased business flexibility.

**Q. What measures are businesses taking in this global economic crisis to better manage their consumers?**

- A. As the economy has continued to slide, the pressure on companies to consider both traditional and newer forms of outsourcing has grown significantly. "BPO trigger events" that might compel companies to outsource include internal cost savings mandates, the desire to make variable fixed operating expenses, the need to capitalize fixed assets, or perhaps mergers and acquisitions that materialize due to the economic environment. When companies pass expenses (capital equipment costs, operational costs, labor expenses, etc.) to a service provider, they free up capital and human resources to focus on core competencies. Not only does overall financial management improve, but customer relationships tend to be reinvigorated.

In fact, business processes such as customer care, while not necessarily core to a company's business, become mission critical in a slowing economy. Retaining customers, perhaps even increasing new and existing customer spend, is essential to business survival when profit margins begin to tighten. Outsourcing is not all about cost reduction; outsourcing contact center processes and technology pays significant additional dividends. For the purposes of this discussion, customer care BPO involves a multitude of customer care needs, including traditional customer support, sales, and marketing services, as well as services such as technical support/help desk, collections, and fulfillment. The contact center is at the forefront of managing all these functions in the most propitious manner.

**Q. What are some specific advantages of outsourcing, particularly in this kind of economy?**

- A. As too many companies struggle to run their businesses, meet their fiduciary responsibilities to their stakeholders, as well as address their customers' needs under rising cost pressures, it's critical that they focus on what they do best. BPO allows providers to take responsibility for efficiently running important but noncore functions such as customer care or back-office

operations. While customers remain core to the success of a business, the science of handling tens of thousands of contacts per day is not core to most companies. This translates directly into cost savings stemming from improved efficiencies, not just labor arbitrage. Weakening economies and rising commodity prices will continue to put pressure on company performance so that efficient operations across the enterprise become imperative.

For example, there are efficient ways to forecast and schedule staff to meet periods of peak demand instead of having employees sitting around when calls, emails, chats, and faxes are not coming in. Generally speaking, this is not a company's core competency; but a strong BPO player devotes its time to making employee time management a science. The recruiting, hiring, and training of talent are all central to the success of the best BPO providers. In a down economy, companies can take advantage of these skill sets by leveraging the aggregated capabilities of a mature global BPO expert that they could not develop on their own.

In addition, contact centers are evolving from a mechanism that enables cost cutting to one that — done correctly — can help retain customers and even generate new revenue streams. Over the years, contact centers have been collecting lots of data on customers, but only recently have there been sophisticated approaches to leveraging that data to capture increased spend with existing customers and discover new customers. Some outsourcing service providers are using predictive analytics and other business intelligence tools to transform the contact center into a business intelligence center for their clients.

The outsourced contact center also offers the ability to access new technology solutions. We think this will become more important in consummating BPO deals. Increased customer use of disruptive delivery options (e.g., hosting, SaaS, and utility computing) will drive outsourcers to increase their focus on and investments in these new areas, which will spill over into benefits for their clients. More than ever, outsourcers will need to leverage on-demand models in penetrating key markets, including small and medium-sized businesses and emerging markets.

In the meantime, what we see at IDC is that company-owned contact centers ("captive centers") often struggle in India and elsewhere from lack of scale, spiraling costs, high attrition, elusive talent pools, and lack of integration and management. Less reliance on the captive, or insourced, strategy feeds the market for providers of outsourced customer care. For example, some companies are finding it unrealistic to maintain those captive centers and are transferring their entire contact center staff to a "virtual captive" hosted by a third-party vendor while retaining the processes and overall control.

The fact remains that BPO service providers can operate more efficiently and cost-effectively than companies for which customer care is not a core business. Look again at the impact of declining call volumes: Too often, companies with their own contact centers are left with a large number of underutilized employees. Meanwhile, competitors that leverage outsourcing shift that burden to a service provider without creating huge negative press associated with layoffs. The BPO provider is in a much better position to be flexible with resources, potentially redeploying employees from one client to another.

**Q. When considering outsourcing, what risks do companies face?**

- A. There is always the very real risk of a failed engagement. From IDC's perspective, the most common reasons for outsourced engagement failure include the following:
- Not securing strategic "buy-in" from top management and disseminating the strategy throughout the organization. There must be a senior-level champion, or the initiative may become crippled.

- Not creating accountability for outsourcing success. Outsourcing must be seen as a key part of the company's business strategy, and everybody from the top on down needs to understand that and be accountable for their role in the engagement's success. Companies can't just pick a service provider, say, "Here, you take care of this," and then walk away. Most of the time, those types of relationships fail. That's not even a relationship per se.
- Picking the wrong partner. Organizations considering outsourcing need to be discerning in the partner they choose. Simply selecting to outsource to the lowest-cost provider can potentially pair a company with another struggling business. In this tough economic climate, businesses should choose a partner that has expertise in noncore functions and that also has the strategic insight and flexibility to make a long-term engagement work. Larger, more experienced global service providers tend to be great partners because they have the scale and stability, as well as the consultative expertise of where and when to make strategic investments. It's a huge advantage having that type of partner.

**Q. Speaking of global, how is globalization impacting BPO in this environment?**

- A. Globalization is happening; it's flowing downhill, and it's not going to reverse itself. Every company in the marketplace is caught up in that stream. Some companies are dipping their toes in the water, while others already have dived in and are swimming for advantage. But everyone is feeling the competitive pull from the same dynamic.

As globalization intensifies, it's becoming even more critical to retain and grow business. Top BPO service providers provide a bridge to efficiency over these turbulent waters. Along the road of an outsourced solution, providers also can provide new market opportunities by leveraging specific skill sets (e.g., customer service representatives with fluency in another language such as Spanish). Moreover, customer care contact centers have become an essential part of the enterprise, and companies must pursue the most efficient ways to run them.

Within the rough waters of globalization, IDC believes that some attributes will be key for BPO providers, including the ability to demonstrate expertise in CRM processes and strategies; the ability to offer a high-value service alternative; skills in building successful partnerships; the capacity to support low-cost multichannel communication; and a best shore alternative, from offshore to homeshored solutions. Companies want to have a domestic strategy (not only for positive PR but also to offer a superior customer experience) while also taking advantage of the offshore reality (in many cases, in the pursuit of cost competitiveness). This last point segues well into what one might call "the logic of outsourcing."

The downturn in the global economy is driving an increase in outsourcing, not only through the offshoring model or the homeshoring model but also through the introduction of new technology solutions. As the globalization wave continues to swell, it will become so important to have a diverse portfolio that includes all these things. While just about every country across the globe has been impacted by today's Great Recession, it's difficult to see how globalization won't continue, even if the swells of globalization ebb for a time.

Organizations that have adopted the outsourcing model will be gaining truly global capabilities that include perhaps the most global capability of them all — the Web — to gain access to new skills, resources, and markets.

## ABOUT THIS ANALYST

*Stephen Loynd is the program manager for Contact Center Services research at IDC. In this position, Loynd examines business and IT services companies that compete in the dynamic global CRM services market. He also engages in client-centric business consulting while contributing to the development of the program through sales activities and research planning involving IT services companies and business process outsourcing (BPO) service providers.*

---

## ABOUT THIS PUBLICATION

This publication was produced by IDC Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Go-to-Market Services makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

## COPYRIGHT AND RESTRICTIONS

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests, contact the GMS information line at 508-988-7610 or [gms@idc.com](mailto:gms@idc.com). Translation and/or localization of this document requires an additional license from IDC. For more information on IDC, visit [www.idc.com](http://www.idc.com). For more information on IDC GMS, visit [www.idc.com/gms](http://www.idc.com/gms).

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 [www.idc.com](http://www.idc.com)