

Global Sourcing (From) Return to Profitability...

*Your path to turn your service and support contact center
into a customer-centric profit center*

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In This White Paper

Going beyond just reducing costs, the outsourced contact center is a way to increase profits and improve the return on your customer investment.

How the evolution of the contact center is changing the client/provider relationship.

What drives the return you receive on your customer investment and what you can do to maximize it.

How to increase the economic value that results from building better customer relationships.

Introduction

“Achieving the full profit potential of each customer relationship should be the fundamental goal of every business. The logic is as simple as it is compelling: Profits from customer relationships are the lifeblood of all businesses. And, at the most basic level, these profits can be increased in only three ways: by acquiring new customers, by enhancing the profitability of existing customers, and by extending the duration of customer relationships. Today companies can use information and technology tools to link their investments in customer relationships to the returns that customers generate.

In other words, companies can now optimize the value exchange: the relationship between a company's financial investment in customer relationships and the return that customers generate in responding to that investment.”

*~ Alan W.H. Grant, Leonard A. Schlesinger
Harvard Business Review*

The conventional transaction-based contact center is going the way of the pay phone: fast disappearing. Whereas the age of the wireless rage has made coin-operated telecommunications virtually non-existent, the contact center is shedding its black-and-white, Q-and-A service platform in favor of more vibrant offerings, ones that present greater opportunities for both the consumer and the producer. This movement involves using technological and human resources to better understand and service the customer and, in turn, to measure the return on the investment companies are making in their customers. In essence, the concept of the “value exchange” - published more than a decade ago - is now rooted in the contact center, where one phone call, one e-mail, one chat session can lead to significant, potentially long-term, value for all of the principals involved.

Take the case of a leading retailer of consumer goods. A handsome Web site and colorful catalogs mark its brand, and a loyal customer base identifies with the supreme quality of the company's products, yet once upon a time the retailer barely knew its customers at all. That veil was removed when the company made a significant investment in a customer relationship management (CRM) application through its third-party customer care

provider. The application provides a view of the customer across all channels and product lines, and ensures that every customer interaction is tracked into a centralized database and presented to the contact center agent via a universal desktop. Why this investment? To provide more effective customer interactions (improved customer experience), information for better customer analytics (measure of customer return), and the opportunity to mine customer information (increased return on customer investment).

As a result of building this customer repository, the retailer is able to determine the buying habits, characteristics and associated spend for each customer. Using classical customer segmentation methodology, customers are segmented based on their economic relationship with the company - both current and potential. Subsequently, the company determines the appropriate investments to best serve each customer segment. For example, for the most avid consumers, the objective is retention and not upselling/cross-selling.

This company epitomizes the return on customer investment concept. While there have been several successful initiatives to reduce cost and increase revenue, every one of them was measured against the expected return in terms of customer experience, satisfaction and, therefore, loyalty and spend.

Shifting Market Dynamics - from Customer Cost to Customer Growth

The service-dominated contact center increasingly is being recognized not only as a key channel for customer service and technical support, but also for creating and delivering value to clients through full-sales/service customer interactions. Companies are not satisfied with just reducing costs anymore; they expect to utilize this powerful channel for customer communication to improve the return on the investment they make in the call center to deliver service.

Customer service and technical support activities are often outsourced to third parties so that organizations can lower operating and administrative

costs, acquire special capabilities/expertise and reduce longer-term capital investment.

Companies that outsource are wise to understand the evolution of the client/provider relationship that all too often is viewed only in tactical terms: the contact center channel as a way to reduce cost to service. This is typically only measured by traditional metrics such as “average handle time” or “first call resolution.” Customer-centric metrics, which take an integrated approach to satisfied customer interactions, enable us to better understand customer behavior. Enabling truly effective customer relationships can deliver superior economic results if the right relationship interactions, aided by the right human and information resources, are allowed to occur and flourish.

Outsourcing can be about creating greater value than is already present in many customer relationships. This value is extracted through greater targeted channel investments in areas with the potential to pay dividends in terms of retention, loyalty and additional sales. One has to view the channel as holding greater customer potential by mining the growth opportunities that are explicit or implicit in deep relationships with profitable customers.

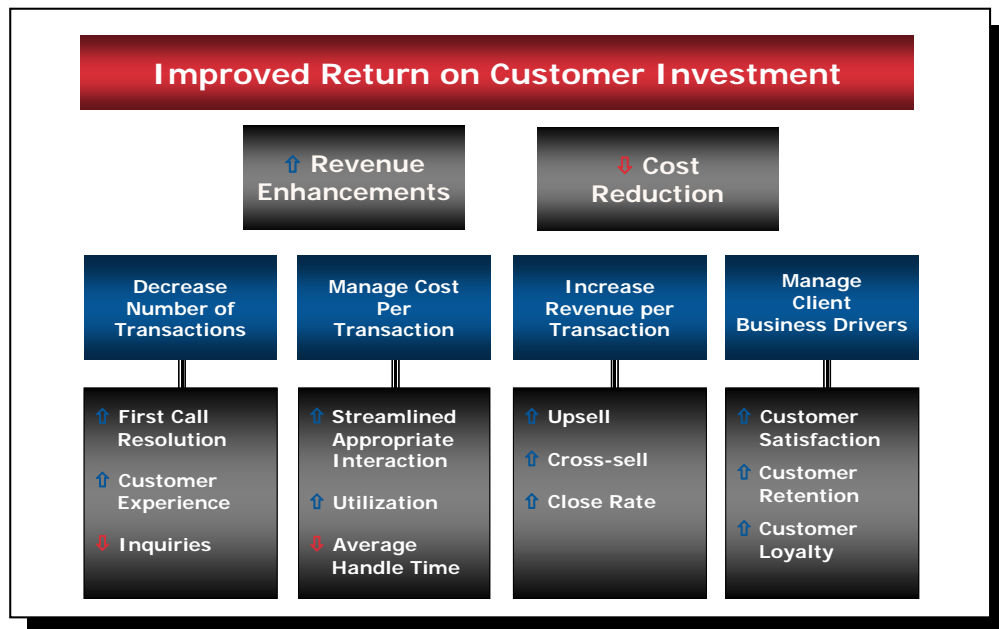
By focusing on strategic investments in the most productive areas, drivers of return and key channel processes, companies can derive greater value from the contact center.

What is Return on Customer Investment?

Profitability is a function of the relationship between cost and revenue, and return is the larger-picture economic benefit derived from the overall investments made in the phone channel. Reducing cost or increasing revenue appears to be compelling objectives, but in fact they may lead to undesirable outcomes, such as loss of customers, or even short-term unprofitable operations. Reducing cost alone, when it affects customer interaction quality and the customer experience, which can damage customer relationships and hence loyalty and sales, is of course not desirable. Increasing revenue at too high a cost, by, for example, over-investing in the sales process will not result in a profitable outcome either. Determining what is the “right” cost

and what is the “right” corresponding relationship to revenue is embodied in the return calculation.

Most contact centers are perceived as only committed to reducing costs/increasing revenue, therefore missing the opportunity to think at a more strategic level, and also address an area that is of ultimate concern to corporate management and its constituents - ways to increase shareholder value.



An exclusively tactical approach to the contact center function, as defined by measuring cost, revenue and retention, could result in an erosion and marginalization of the ability and the perception that the contact center deliver no more than a commodity service that is available everywhere. Contact centers must not only meet clients' needs and expectations with regard to return on their investments, but they must use this refocused attention to encourage the creation of greater value from the contact center channel overall. When companies realize that greater value and return is inherent in the channel their investments will begin to increase.

When we speak of improving return we refer to both the company and its customer investments. Ultimately the customer provides the reason and revenue to drive all of the client's activity.

Drivers for Return on Customer Investment

To better understand this concept, one should examine the essential drivers of cost, revenue and return and their interrelation.

Cost

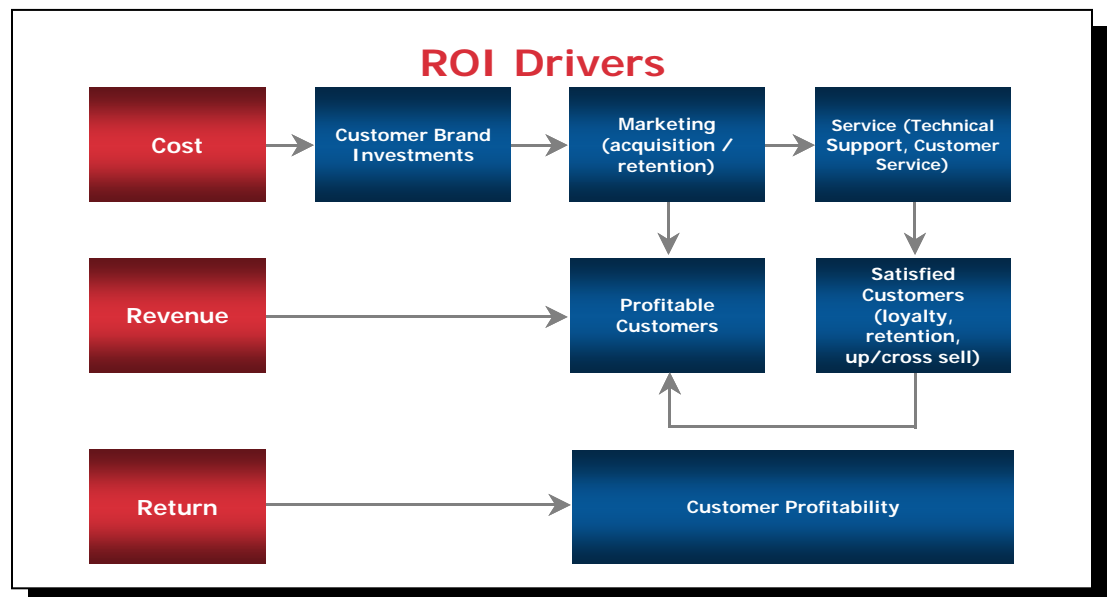
In order to realize revenue from products and services most non-commoditized organizations must invest in building a brand with customers, acquiring new customers and servicing all customers. Investments in brand and marketing acquisition are made because of the expectation of direct immediate revenue or its short-term potential. The costs associated with service are typically viewed differently. Most organizations view the cost of service as, at best, an indirect investment, and it is perceived generally as "a cost of doing business." Across most industries the typical organization has no, or low, expectations for deriving true channel value by delivering customer service or technical support. Costs are not viewed as investments, but as economic factors that must be minimized either through live agent interaction restrictions or automated solutions. There is no expectation that the service contact center can provide organizations with profitable customer relationship building.

Revenue

The expected outcome of brand and acquisition investments is new profitable customer relationships. Organizations make these investments because they expect and can see direct results of their investments. Contact center service is only beginning to be viewed as providing direct revenue potential, because it has traditionally been perceived to provide little direct revenue opportunity.

Not all customers that companies have are profitable, and not all service interactions will result in direct revenue. But the ability to see where opportunities exist is what transforms the channel from a cost center, to a

cost neutral business process, or even to a profit center. Organizations are also looking at how differential investment in customer segments opens up new possibilities of revenue and return, which were not considered when the decision to provide service was initially made. The ability to implement these new approaches to customer interactions takes dynamic technology and people skills that must be constantly evaluated and updated to reflect the current state of each individual customer or customer segment.



Because not all customers are of equal economic value to an organization, it makes most sense to regard customers based on a perceived value relative to their past, present and projected future transactions. For example, technology is one way to lower service costs on all transactions but it can be applied more heavily to marginally or unprofitable customers to reduce the cost of service for those segments even further. The higher-potential customer should have the option of interacting with the organization in such a way that is most suitable to that customer, whether it be a live agent, a fully automated solution or an integrated hybrid construct of live agent and technology. The algorithms that determine customer routing and treatment must be reviewed and updated, often every quarter.

Differential service investment in customers individually or by segments defines the core of the return concept. Service investments in the contact center channel should be approached similarly to the decisions to put operations on the “right-shore” to take advantage of favorable labor rates, unique or evolved capabilities and the benefits of globalization.

Return

Obtaining customer profitability is the aim of all for-profit enterprises and the contact center can play a significant part in achieving this outcome. Within the contact center channel, investments are typically made in agents and their management, technology and customer experience processes.

- Agents and their Management - Whether it is recruiting and staffing more experienced agents and managers or increasing the ratio of managers to agents, the people that deliver and directly support the customer interaction are ultimately most able to maximize the customer value. Investments in this area, when applied effectively, always have the greatest impact.
- Technology - Many companies have vast amounts of usage and, to a lesser extent, behavioral data on customers. Using that data to inform each interaction can help to elicit and achieve the profitability that often remains untapped. Technologies exist that allow clients to provide different levels of service to different customer segments, thus reducing cost of service to less profitable segments and providing higher service levels to more profitable segments. Technology is never a substitute for agent effectiveness, but when applied in the right areas, it can enable data-driven decisions at levels of consistency that otherwise are not easily obtainable.

- Customer Experience Process - An effective training program and a positive learning environment for customer service/technical support agents and first-line supervisors are essential to facilitate the transformation of a service-only culture into a service and sales culture - one that includes communicating with customers so that the true value of each customer and individual interaction results.

Determining your Customer Investment

When reading the following quotation, consider the vital role the contact center can play in building strong customer relationships and how important your customers are to you.

"To understand the connection between customer relationships and growth, begin with a simple fact: In business, every decision ultimately involves economic tradeoffs. Every company would want better relationships with customers if these relationships were free. Every CEO would prefer to meet earnings goals with good profits than with bad if there were no cost involved. Indeed, the abuse of customers would end tomorrow if ending it had no effect on companies' financial performance. But of course building high-quality relationships does cost something - often a considerable amount. It requires investment. It requires reducing a company's reliance on bad profits. There is no way to deceive or exploit customers and build better relationships with them at the same time.

But the real question is not just the costs but the benefits, and how the one stacks up against the other. Companies need to understand the economic value that results from building better customer relationships."

~ Fred Reichheld, *The Ultimate Question: Driving Good Profits and True Growth*

About Sitel

Sitel is a global Business Process Outsourcing (BPO) leader that meets clients' customer care and transaction processing needs by providing world-class solutions from over 60,000 associates in 155+ facilities located in 27 countries.

Sitel provides clients with the strategic insight, scale and diversity of offerings to ensure the best return on their customer investment. For more information, please access www.sitel.com



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