

# Making the Right Call

*A Guide to Effectively Outsourcing your Customer Care*

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## In This White Paper

- There are many advantages to be gained through outsourcing.
- What to consider when determining which functions to outsource.
- What you should consider before outsourcing, including the risks and rewards.
- How to set the stage for a mutually beneficial, strong relationship between client and vendor.

## *Introduction*

*“The decision to outsource is a bold step for any organization. Before making that choice, decision-makers must understand that the substantial benefits of outsourcing come with inherent risks if the relationship and its outcomes are not correctly conceptualized, implemented and managed.”*

A popular belief is that reducing cost is the most prevalent reason why companies choose to outsource. While there are many financial advantages to be gained through outsourcing, research firm Gartner cautions that a company must be driven by more than economic imperative in order for an outsourcing initiative to succeed. “Eighty percent of organizations that outsource customer service and support contact centers with the primary goal of reducing cost will fail,” Gartner boldly states in a 2005 report. That alarming statistic demonstrates how essential it is for a company to partner with the right provider to achieve its goals. In addition to cost savings and revenue generation, the leading providers have much to offer in terms of domain expertise, scalability, geographic diversity and quality assurance. A growing market for customer care outsourcing services indicates support for those claims. “Solid” growth is forecast for customer interaction outsourcing services over the next five years, according to research firm IDC. What was a \$43 billion market in 2005 is projected to surpass \$77 billion in 2010, representing compound annual growth of 12.5 percent. Despite the upward trend, the decision to outsource is a bold step for any organization. Before making that choice, decision-makers must understand that the substantial benefits of outsourcing come with inherent risks if the relationship and its outcomes are not correctly conceptualized, implemented and managed.

Let’s review compelling reasons why a company would choose to outsource, as well as common mistakes to avoid when delegating your customer management to a third-party provider.

## *Ins and Outs of Outsourcing*

Research firm Frost & Sullivan estimates that 20 percent of businesses employ third-party providers to manage their customer care operations. The stakes are high for every one of those companies, making it essential for your company to be fully prepared for the encompassing endeavor that lies ahead.

## **Outsourcing the wrong functions**

Keep your company's strategic goals in mind when selecting functions to outsource. What aspects of your business can be delegated to deliver increased growth, profitability and speed-to-market? What functions represent your core competencies or internal expertise that is impossible to duplicate? Companies that outsource without an honest evaluation of internal competencies may later find that they outsourced too much, or not enough. "It's important to understand what you consider to be your core competency and your customer's perceived value of that interaction," according to Matthew Goldman, Gartner Research Director for Outsourcing and IT Services. Companies are urged to complete a preliminary three-step exercise as they examine the outsourcing option: 1) Develop an understanding of the market and reasons why similar companies are using outsourcing services, 2) Determine how outsourcing will affect your company's customers, and 3) Consider the costs, benefits and lessons of outsourcing based on the experiences of similar companies.

## **Incompatible or insufficient partners**

When delegating a function as important as customer care, a circumspect evaluation of potential partners is vital. Don't solely consider what your company needs from a vendor today, think about what it will need a year or five years from now. Your culture, problem-solving approach and management style should closely match. A critically important step in the evaluation process is to perform proper due diligence on the references of every potential partner - to gain a clear understanding of how effectively the provider conducts business, from the executive to the operational level. Additionally a company also must ask itself, "What does my business mean to this provider? Will I be overlooked amid a vast client base? Am I the sole company in this vertical that the provider services or will I be able to benefit from best practices gained by servicing similar clients?" A Gartner report on trends in business process outsourcing advises companies: "Discuss a prospective vendor's industry focus - for all but the largest vendors, it is far better for them to target and specialize three or four

industries and garner a reputation and track record in these sectors versus trying to be all things to all people, spreading themselves thinly in nine or 10 different industries." Optimally, the relationship will become a lasting partnership that will change and grow with your company.

## **Insufficient planning and unclear targets**

No one wants a high-maintenance relationship, but without mutually understood goals and shared incentives for collaboration, the relationship may drift and deliver disappointing results. Outsourcing relationships that start with clear, measurable objectives are predisposed for success. That is how a well-written contract serves several purposes: 1) Alleviates a company's fear over losing control over the business process it is outsourcing, and 2) Documents all assumptions behind the service level agreement (SLA) and associated pricing and stipulates that revisions can be made if the assumptions prove inaccurate. The time you spend in initial relationship planning will deliver immeasurable returns in efficiency, shared accountability and performance.

## **Lack of management foundation**

Outsourcing relationships should be run by seasoned professionals with the support of top management. A strong and capable vendor manager is needed to handle geographically dispersed vendors, nurture long-term relationships and manage lateral communications. A 2005 study by Deloitte Consulting revealed that 62 percent of buyers surveyed were surprised by the amount of time and effort it takes to manage outsourcing relationships. Outsourcing experts Michael F. Corbett & Associates recommend establishing organizational links between your company and the service provider at the operational, tactical and leadership levels. A dedicated account team by the third-party provider, clearly defined communication channels, calibration sessions and review processes lead to quicker resolution of service-level issues and program-wide process improvements.

## **Increased hazard exposure**

Leveraging outside resources brings new capabilities, but it may also expose your organization to hazards the service provider has failed to properly address. When selecting an outsourcing partner, you can minimize your hazard exposure by critically assessing the vendor's redundancies, operational backups, monitoring capabilities, anticipatory system intelligence, fraud prevention practices, and crisis communication and command structures. For some operations, a pilot project might be a prudent testing phase before the full-scale implementation takes place.

## **Going offshore right away**

If the decision to outsource is a major step, then going offshore is a quantum leap - requiring adequate outsourcing experience, proper infrastructure and an accepting customer base. A misstep offshore is more difficult to resolve than one close to home. First-time outsourcers are advised to start in an on-shore or nearshore location and then transition the business offshore as their relationship with the vendor and their comfort level with the practice of outsourcing mature. It is important to remember that not every company or type of business is well-suited to go offshore, and characteristics such as skill set and language capabilities in a region must be considered, as well as the value of the customer to your company. "Large outsourcers offer offshore services as one menu option among many," according to a 2005 Frost & Sullivan report. "The largest and most successful outsourcers do not encourage clients to send all of their customer service operations offshore."

## **Over-managing the relationship**

Just as neglect can ruin an outsourcing relationship, so can micro-managing. If you choose your vendor wisely, you will be able to trust their expertise in day-to-day decision making. Remember, their skills and experiences are why you outsourced in the first place! Certainly you will track the performance of your business through real-time reporting tools and you will maintain regular communication with your provider, but leave the "how to" delivery decisions to your provider. A co-developed balanced scorecard will

keep everyone on task without the oppressive oversight that can stifle creativity and innovation.

## ***Outsourcing Value: Dollars and Sense***

Cutting costs is the No. 1 reason why companies outsource, according to an Outsourcing Institute survey. While that comes as no surprise in today's economic climate, cost savings are but one of many benefits to be gained through outsourcing.

### **Deriving economic benefit - beyond cost**

While there are significant financial advantages to having customer care services managed by third-party vendors, as fixed costs are transformed to variable, controllable costs, companies must be realistic about how much outsourcing will affect their bottom line. They should measure their initial and ongoing outsourcing relationship based on an optimal "return on customer investment," whereby a provider, through service quality across channels, media and countries, as an example, can enable a company to reduce costs as well as generate additional revenue. This is achieved by improving such metrics as first-call resolution, average handle time, customer satisfaction and upsell, cross-sell results, along with leveraging a lower labor rate. Over time, a well-conceived outsourcing relationship will result in a higher return on your marketing and customer care investments. Gartner's Goldman describes an optimal client-service provider relationship as having three stages: 1) Client's customer care operations gain efficiency at outset of partnership with service provider, 2) Client's results show marked improvement as partnership matures, and 3) Client's approach to customer care, goals and future direction are entirely influenced by partnership with provider - referred to as a transformational partnership. Understandably, it takes time and trust between the partners to reach the third stage.

### **Complete focus on core competencies**

Many companies face a common dilemma: competition increases but the resources to stay ahead of the field and maintain shareholder value are not

necessarily commensurate with those expectations. What's an organization to do? One strategy is to redirect those financial and personnel resources by outsourcing non-core activities while internally focusing on core activities that add value, create competitive differentiation and better serve the customer. That approach enables the third-party provider to manage customer care services, utilizing cutting-edge techniques, technologies and best practices to support their service offerings. Some providers have been serving customers as a core competency for decades, thus they have learned how to maximize customer relationships while minimizing costs. The leading providers place great emphasis on process improvements, dedicating vast resources to employ quality assurance tools such as Six Sigma analytics and Total Quality Management (TQM). Laurence Jacobs of Allen & Overy, an international law and finance firm, asserts, "The best thing about outsourcing is leaving specialist functions to specialists, especially with a professional approach and higher level of expertise."

## **Redirect capital budget for strategic growth and new opportunities**

Resources and overhead are best spent on the functions with the greatest return for the company. "Outsourcing gives you the opportunity to deploy internal resources to other projects. This is all about the options you get as a result of outsourcing," says Chip Gliedman, Giga Information Group.

## **Speed-to-market advantage**

Your company can achieve a powerful speed-to-market advantage by employing an existing solution, as opposed to the slow and risky process of building and integrating your own. In some instances companies can leverage experienced members from the provider's existing customer care staff, which is available because of extra capacity. These seasoned associates reduce the learning curve and increase the likelihood of higher customer satisfaction.

## **Flexibility and scalability**

In an extensive survey on outsourcing, Allen & Overy found that flexibility – the ability to immediately and painlessly absorb fluctuations in volume – plus the ability to scale rapidly according to demand and/or new products, were of paramount importance to buyers. Top service providers have the capacity to absorb dramatic demand shifts through their existing technology and human resources, enabling quicker ramp-ups and ramp-downs than in-house centers. The ability to scale quickly can be particularly valuable for short-term, seasonal programs. During holiday seasons, for example, some consumer products require a substantial number of additional personnel to meet volume demands. In that case, top service providers can creatively offer companies different options for handling the volume (e.g., distributing it among multiple centers).

## **Improved quality**

“Leading-edge quality service providers ... usually provide better service than most in-house operations,” asserts Brian Bingham, IDC’s Program Director for CRM and Customer Care Services. How? The aforementioned vendor expertise, multi-channel technologies and binding service level agreements (SLAs) are just a few of the ways leading providers often produce results superior to in-house operations. “Improving the customer experience is becoming one of the key issues for contact centers in 2006,” according to an IDC report. “IDC expects to see contact centers moving their focus from internal functionality to enabling the processes that can really help them meet customer expectations.”

## Flattening the world

Global market expansion encourages companies to consider outsourcing as a means for international reach and labor leverage. Establishing an overseas presence can be very challenging in terms of technology redundancies, government regulations, customs, languages and political influence, while top outsourcing partners can offer instant international reach across dozens of centers. "The availability of low-cost, high-quality offshore services will stimulate demand for outsourcing, resulting in an increase in volume," according to a 2005 Frost & Sullivan report.

### *Shared Purpose, Greater Gains*

Thousands of companies are recognizing the value of customer care outsourcing - when outsourcing relationships are managed well. The popularity of outsourcing is growing steadily, spurring innovative relationship models that encourage joint management of a program through its successes and its struggles alike. When your company and your outsourcing partner share incentives, performance objectives and related revenues, the interests of both parties are aligned for customer service excellence, efficiency and ongoing innovation. Companies that understand and embrace the shared investment and communication required for successful outsourcing will reap great benefits despite the inherent challenges.

# 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](http://www.sitel.com)



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