

The Truth About Global Sourcing

*Choosing the Geographic Support Strategy
Right for Your Business*

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In This White Paper

- The Myths and Truths about Offshore and Nearshore.
- How to phase your transition and be sure to consider redundancy as well.
- The importance of sharing both the risks and rewards with a trusted service provider.

Introduction

“Offshore and nearshore labor holds tremendous promise to reduce support costs, improve service speed and enhance flexibility. But with promise comes peril, especially when dealing with foreign countries, public relations backlash and international trade issues.”

Here’s a fun project: take a look around your desk and see how many different countries the products there represent. Chances are, you’ll find “Made in Mexico,” “Made in China,” “Made in the USA,” “Made in Germany” - countless items of international origin. Each of our offices, homes and cars are filled with products, materials and components from around the world. Is it any surprise, then, that the customer support of those products is becoming equally global?

As borders fade, commerce alliances grow and technology connectedness improves, offshore and nearshore labor sources are increasingly relevant for service work. In years past, offshore outsourcing was restricted to time insensitive tasks such as manufacturing, IT application development, remittance processing and medical transcription. Now, with improving redundancies and voice compression technology, far-flung locales can deliver customer service that sounds like it’s coming from next door.

Thomas L. Friedman’s best-selling book about globalization, “The World is Flat,” includes outsourcing and the offshore movement among a list of “flatteners” that converged around the year 2000 - dynamics that contributed to “shrinking the world from size small to size tiny, and flattening the global economic playing field at the same time,” Friedman told YaleGlobal Online. Friedman writes about the emergence of a “global, web-enabled platform for multiple forms of sharing knowledge and work, irrespective of time, distance, geography and increasingly, language.”

In our smaller world, companies are looking globally for the “right shore” for their business services, and they have increasingly unlimited options, combinations and migration possibilities. We use the terms offshore and nearshore relative to the country outsourcing - some European countries outsource to Canada, which is nearshore to the U.S., but offshore to the European Union. Likewise, long before U.S. contact center work started heading to India, Asia Pacific and other distant places, many companies outsourced “offshore” to Ireland. Just as most products (computers, cars, clothing) now contain components and materials from all around the world,

the customer service strategy of the future will be equally geographically diverse.

Offshore and nearshore labor arbitrage hold tremendous promise to reduce support costs, improve service speed and enhance flexibility. But with promise comes peril, especially when dealing with foreign countries, public relations backlash and international trade issues. The heated debate around offshore and nearshore outsourcing is full of myths, exaggerations and dubious projections. Before the “FUD” (fear, uncertainty and doubt) gets too pervasive, we offer the following honest assessments to guide your way.

All Contact Centers Are Not Going Offshore

Everyone has seen the reports and media coverage of offshore-related job losses and union protests. Despite the hysteria, not everything is going offshore. All these predictions should be taken with a grain of salt - many of the dramatic job drain estimates we read are coming from the very same soothsayers who said e-commerce would spell the demise of “bricks and mortar” stores. The truth is that some functions will go offshore and nearshore; many never will. In fact, we’ve already seen several companies bring service back on-shore after going abroad with the wrong segments of customers or unrealistic service expectations. All in all, the Americas region, composed of the U.S., Canada and Latin America, as defined by U.S.-based research firm IDC, remains the dominant territory globally for the provisioning of outsourced customer care services. The Americas will account for 60 percent of a \$65.7 billion market in 2007, according to IDC, compared with 11.5 percent for Asia Pacific.

Cost is Not the Only Reason for Moving Nearshore or Offshore

Certainly, one of the foremost benefits of taking service offshore is increased access to cost-effective labor. The most attractive offshore locales are educated and urban, yet exhibit such significant underemployment that their wages average 30-70% less than domestic wages. Popular outsourcing destinations for European companies include India (offshore), as well as

nearshore locations Morocco, Tunisia and eastern European countries such as Poland, Slovakia, Hungary and the Czech Republic. Meanwhile, U.S. companies favor India, Philippines, Mexico, and Latin American and Caribbean countries.

Besides cost, there are a variety of motivations for right-shoring, including access to particular skill bases or multilingual populations. For instance, Mexico and Latin America provide viable nearshore options to service the lucrative U.S. Hispanic population, while Morocco and Tunisia offer French-speaking capabilities to European companies. In embracing the European Union concept, some European companies are faced with providing multilingual support for customers across the continent. These requirements are being met by the aforementioned eastern European countries. Whether customers want support in Spanish, French, English or any other language, right-shore outsourcing can deliver a cost-effective, culturally compatible and convenient solution for serving them.

Global Sourcing Service Strategy is a Delicate Balancing Act

Leveraging offshore and nearshore resources brings new capabilities, but it may also expose your organization to a variety of new potential hazards and issues. Cost and strategy must be weighed against customer expectations, brand image and the competitive significance of service. Only you know which way the scales will tip for your company. Don't solely consider the nature of your company today, think about where you want it to be a year, or five years, from now.

Offshore and Nearshore Aren't Right for Every Company or Every Customer

Not all types of service can be delivered effectively from overseas locations. The labor arbitrage decision should be made with careful consideration of industry, brand and customer base characteristics. International experience has shown that certain sectors of companies and customers fit well with offshore support and technology-enabled service automation (i.e., IVR and self-help), while others are best served by an on-shore, high-touch solution (see chart).

	Services Differentiator	Contact Type	Customer Segment	Channel Strategy	Financial Imperative
DOMESTIC	➤ High/Medium	<ul style="list-style-type: none"> ➤ Complex inbound ➤ Complaints ➤ High-value outbound 	<ul style="list-style-type: none"> ➤ Platinum customers (value) ➤ Less tech-savvy population 	<ul style="list-style-type: none"> ➤ High touch ➤ Value-added services and account management 	➤ Medium/Low
NEARSHORE	➤ Medium	<ul style="list-style-type: none"> ➤ Multilingual ➤ Complex support ➤ Select outbound sales 	➤ Gold customers (value)	<ul style="list-style-type: none"> ➤ Cost effectiveness is key ➤ Regular customer interaction 	➤ Medium/High
OFFSHORE	➤ Medium/Low	<ul style="list-style-type: none"> ➤ Transactional ➤ Technical support ➤ Collections ➤ Lower-value outbound 	➤ Silver customers (value)	➤ Labor arbitrage & operational expenditure model	➤ High
SERVICE AUTOMATION & SELF-SERVICE	➤ Medium/Low	<ul style="list-style-type: none"> ➤ Status inquiry ➤ FAQ ➤ Repetitive inbound 	<ul style="list-style-type: none"> ➤ Bronze customers ➤ Tech-savvy customers 	➤ Customer interaction mitigation & automation	➤ Medium/High

Look Before You Leap...A Show, Paced Transition is Best and Don't Forget Multi-Site Redundancy

How does a business decide which functions should go global, and which should stay domestic? Keep your company's strategic goals in mind when

selecting functions to take offshore or nearshore - which aspects of your business can be delegated abroad to deliver increased growth, profitability and speed-to-market? Most smart companies prefer to make a slow, calculated transition to nearshore and offshore support, starting with non-critical functions like batch processing and e-mail service, then gradually moving to inbound voice support (see chart).

Consider starting small with low-risk functions:

- Overflow calls
- Credit and collections
- Back-office processing
- Outbound telemarketing
- After-hours calls
- Surveys
- Remittance processing

Geographically, many companies prefer to first transition work to nearshore locations just a quick hop away (i.e., Morocco, Poland, Canada, Mexico) and later take the distant offshore plunge (e.g., India, Philippines). As your company's comfort with right-shoring grows, you can begin to explore more comprehensive labor arbitrage options. No matter the migration plan, multi-site redundancy will help mitigate risk and ensure service consistency, regardless of contingency. Your customers are on the line - literally and figuratively - thus backups (especially links and system mirrors between domestic and nearshore/offshore operations) are essential to delivering a smooth, positive experience that earns customer loyalty.

Share the Risks and Rewards with a Trusted Service Provider

Hundreds of companies are realizing the superior value of right-shore contact centers - and most aren't taking the plunge alone. Establishing an outsourcing partnership is the fastest, most reliable approach to serving customers offshore and nearshore.

When you choose to delegate a function as important as right-shore customer care, a circumspect evaluation of potential partners is vital. Your culture, problem-solving approach and management style should closely match your vendor's. Optimally, the relationship will be long-lasting, and will change and grow with your company. If a provider's support price sounds too good to be true, it probably is - below certain price thresholds, you may be dealing with inexperienced or fly-by-night operations. Make sure you do your homework on your prospective vendor's business pedigree and corporate governance, with emphasis on its tenure in contact center operations and the local market.

The popularity of offshore and nearshore outsourcing is growing rapidly, spurring innovative relationship models with blended domestic, nearshore and offshore support. Companies that understand and embrace the investment and self-awareness required for successful global sourcing will reap great rewards, while minimizing risk.

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