

Thinking Clearly about Offshore Outsourcing

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Summary

Many companies now racing to the promised returns of offshore outsourcing have stumbled. Companies are finding that all the traditional challenges of delivering effective customer service – real-time information exchange, accurate call routing, recruiting, training and motivating agents – remain. And new considerations – security practices at outsourcer locations, infrastructure stability, difficulties managing and controlling long distance – have been added. In this article, we'll look at some of these issues and suggest ways to evaluate your options and improve the chances for success.

Background

As we all know, the early adopters of offshore outsourcing viewed the move overseas as a cost savings measure. First it was Canada, Ireland, and the Netherlands. Then India, Malaysia, the Philippines, and many more jumped in with ever lower labor costs. Now, we have onshore, near-shore, and offshore possibilities.

But many managers have been disappointed by the results and many are considering bringing these services back in-house. Some of the reasons for their dissatisfaction include:

- **Lower Efficiency.** While the unit costs of offshore labor can be significantly lower than in the States, call time-to-completion averages often climb as the parties work to understand each other. This undercuts some of the anticipated labor cost advantage. Where savings expectations had been 50% or more, many companies are realizing only 10% to 20% advantage.
- **High Turnover.** Offshore turnover rates for call center staff are headed, in some cases, to USA levels. In parts of India, turnover rates are greater than 50%. Family and social life disruptions from a night-owl existence lead to high resignation rates. This cascades into additional training costs and a less experienced agent pool.
- **Harder to Manage.** Geographical separation, time differences, language barriers, differing cultural norms, and even differing holiday calendars all contribute to the complexity of successfully managing overseas outsourcing relationships. Reporting and monitoring also present special challenges, with companies often having no means to verify the data reported to them by the outsource provider.
- **Infrastructure Issues.** Services that US and European businesses take for granted, such as energy, telephone, broadband, network services, and even basics like water, sewer, transportation, and police – may be less reliable in host countries and can impact the quality of the outsourced service.
- **Security.** Governmental corruption, identity theft, fraud perpetrated by poorly supervised employees with access to sensitive client information, and security breaches due to inadequate physical safeguards, are a few of the security issues that have been in the news lately. Companies for whom security is a mission-critical

concern are reconsidering whether sensitive data should be sent overseas. HIPAA and similar legislation put further restrictions on data movement.

- **Customer Dissatisfaction.** Callers are increasingly dissatisfied with their offshore outsourcing interactions. As a result, major corporations are reconsidering how they handle mission-critical support. Dell, for example, recently decided to return support of its high-value customers to in-house operations. And Lehman Brothers has pulled back its internal help desk calls, finding overseas support of this function “too complex.” While “accent neutralization” programs have their place, some outsourcers instruct agents to imply that they are based in some state-side locale. That sounds to me like a sure way to erode customer trust.
- **Political Realities.** According to Gartner, less than a third of employees displaced by outsourcing decisions will be re-employed within their organization. With Americans increasingly concerned about white collar jobs going overseas, a number of regulatory initiatives at the state and federal level have been proposed or passed. Democratic presidential candidate John Kerry has come out against the outsourcing of government contracts, and has pledged to “end every single tax credit that gives corporations breaks for moving jobs offshore.” Smart businesses are taking steps to mitigate their risk.

Finding Your Stride

Despite the backlash, market and management pressures to cut costs are intense. That’s not news to any of us on the front lines. So, what’s the best way to maximize the benefit and minimize the risk? Some is getting back to basics; some is taking advantage of new capabilities becoming available in the marketplace.

- **Define a Clear Customer Contact Strategy.** Understand both your customer needs and your company’s goals for customer interaction. Is the objective to keep costs pared to a minimum? Or, does the center have a responsibility for driving customer loyalty or increased sales? Where do the company’s core competencies lie? The answers to these questions will help guide decisions about what, how, and whether overseas outsourcing makes sense.
- **Segment Your Customers.** In many businesses, customers can be segmented into groups based on their long term value, opportunities to enhance the business relationship, or similar factors. This segmentation is often defined as part of the overall strategy. The trick is being able to identify, painlessly, which segment a caller is in, and then act on that information. The use of ANI or an easy IVR identification, coupled with a CTI-enabled data dip may provide the information needed to send callers to different queues. Perhaps some of those queues are routed to a lower cost resource.
- **The Right Applications.** Some applications work better than others for overseas outsourcing. Many phone interactions can be effective if designed well and backed with good training. Of course, text- or data-based applications such as Email, text chat, or data entry, are very cost effective, and avoid some of challenges that voice communications presents. Other BPO (Business Process Outsourcing) activities that rely heavily on systems integration or on real-time data availability (such as collections) can work, but check that the ROI justifies the cost to set it up. Of course,

security issues may mean that data has to stay at the home office, accessed through secure servers with no ability to store information locally.

- **New Infrastructure Architectures.** The arrival of IP Telephony means that multi-site centers can be designed to operate in a true virtual environment. Routing decisions, quality monitoring, and reporting can all be centralized at a redundant or hardened facility, while calls are instantly available anywhere throughout a network of locations. Those locations can include outsourcers, both here and abroad. The old paradigm of network pre-routing followed by potential post-routing will disappear, along with its queue inefficiencies and costs. In addition, managers will be able to monitor quality and measure results from a central location, no matter where the call is physically handled.

The Home Stretch

Outsourcing comes in a variety of flavors, in addition to offshore. Which one is right for you?

- **Near-shore.** Near-shore outsourcing eliminates many of the cultural, language, and potentially time zone and infrastructure challenges associated with offshore outsourcing. Travel expenses are generally lower for many near-shore locations, making site visits more affordable.
- **Onshore.** Onshore outsourcing circumvents most of the issues discussed earlier, but the security concerns remain. When engaging an outsourcer to handle sensitive information, best practice includes verification of security policies and enforcement procedures, as well as periodic inspection of the physical environment to ensure that adequate safeguards are in place.

Increasingly, many domestic outsourcers have offshore facilities of their own, and can provide an array of services at various cost points. This approach may provide flexibility to match segment needs with service options, while having a single contact for management, coordination, staffing, and training.

- **Owned Overseas Facilities.** Another option to consider is operating your own center in an offshore location. That step, of course, requires long term commitment, careful planning, risk assessment, and close attention to a myriad of details.

Selecting any outsourcer requires all the steps of any procurement. Some of the issues that are particularly important here include tight measurement and governance procedures and controls, a well-designed service level agreement, and thinking through all the “what-if” scenarios.

Finally, look at your current experience. This race is a good one to walk before you run. Gain some experience managing an outsourcing relationship first, before committing your best customers to agents half-way around the world. Then, pick a high return-low risk application as a prudent way to start. And before you start, measure your current experience – including call center metrics, business results, and customer satisfaction – so you have a baseline for comparison. That way, you’ll be able to gauge just how far you’ve come. In today’s climate, someone is bound to ask.

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