



knowledge powering results

April 2009

## A Peak Time for Contact Center Outsourcing

Why Recent Developments are Making Outsourcing the Right Decision for Some Companies Today

By Mike McMenamin  
Associate Partner & Director, Contact Center Services  
TPI

### CONTENTS

2. Executive Summary
2. The Contact Center Services Industry Today
3. Performance Improvement By Service Providers
4. Cost Reduction Potential
4. Growing Executive Acceptance
5. Declining In-House Capabilities
5. Rising Customer Support Demands
5. Closer Look: Who Can Benefit Most in the Current Environment?
6. A Buyer's Market
7. Navigating the Service Provider Landscape
7. Resources for Making the Right Choice
8. Conclusion



20 YEARS  
1989 - 2009

## EXECUTIVE SUMMARY

The majority of contact center operations are still performed in house, but the momentum is behind outsourcing. Contact center outsourcing has seen significant growth over the past four years as more and more companies have elected to turn the work over to third parties who specialize in contact center services (CCS). This change is the result of several emerging business developments that have combined to make CCS outsourcing practical and favorable to more organizations than ever before. These developments go far beyond cost reduction, and reflect fundamental changes in best practices, customer service delivery, global sourcing strategy and effective use of technology leverage. The CCS provider landscape has also changed with new entrants trying to differentiate themselves with new technology applications and service offerings. These developments make navigating the contact center services outsourcing market a dangerous journey for the uninitiated.

This white paper presents a current view of the CSS industry and identifies the major developments of the past several years that are driving the surge in outsourcing. It also gives guidance on how firms can evaluate whether contact center outsourcing would be beneficial for their business, profiles the current service provider landscape and presents some tactical advice on how to assess outsourcing as an effective service delivery strategy.

## THE CONTACT CENTER SERVICES INDUSTRY TODAY

Organizations now spend more than US\$300 billion annually on contact center services. The market is huge and is expected to hold its own despite the current economic weakness. However the scope of activity varies considerably among different segments of the contact services industry, so it can be misleading to make overall generalizations. For example, in-house contact center operations are often marked by dated technology platforms, declining budgets, deferred technology investments and a management emphasis on cost containment. Technology and process investments are much more evident at outside service providers, who have experienced four consecutive years of CCS outsourcing growth coming into 2009. These firms have invested heavily in equipment and facilities and have expanded the scope of their offerings to include global services delivery. The leading contact center service providers have surpassed most client operations and emerged as the market's best practices leaders, a significant development that will be discussed later.

Despite these recent gains by service providers, the vast majority of contact center services are still performed internally. Approximately 78 percent of the US\$300 billion spent on contact center services was for in-house operations, with the remaining 22 percent — more than US\$66 billion — being outsourced. However, changes in spending for in-house and outsourcing tell a different story. Outsourcing spending has grown between 8 and 12 percent annually each of the past four years, while in-house spending has been relatively flat. The flat spending is consistent with the annual budget cuts we have seen. This presents challenges for the customer service and support executives trying to address increasing contact volumes and support needs of more sophisticated customers, who are demanding service and more information through multiple channels.

The growth of outsourcing is a reflection of the improved business value being delivered by the service provider community and the challenges and difficulty that clients face when attempting to build their own global services delivery capabilities. As noted, service providers have made impressive improvements both in their performance and in the scope of services offered. Client organizations have become better at segmenting their customers so the quality of customer service can be differentiated based on client business value (e.g. silver, gold and platinum programs).

Changes in the global services marketplace are also creating more options and shifts in the preferred offshore destinations. The Philippines has become the preferred choice over India for offshoring customer service for American English-speaking customers. This is the result of a better cultural alignment with the West and a less



20 YEARS  
1989 - 2009

significant accent in the Philippines. India remains an attractive choice for technical support work, more complex technical problem solving and back-office function support. Companies also enjoy more nearshore options because of the expansion and new capacity in Mexico and Central America. The leading service providers have built modern global services delivery infrastructures and implemented best practices that allow them to effectively and efficiently leverage their scale, volume, global capacity and technology to better serve their clients.

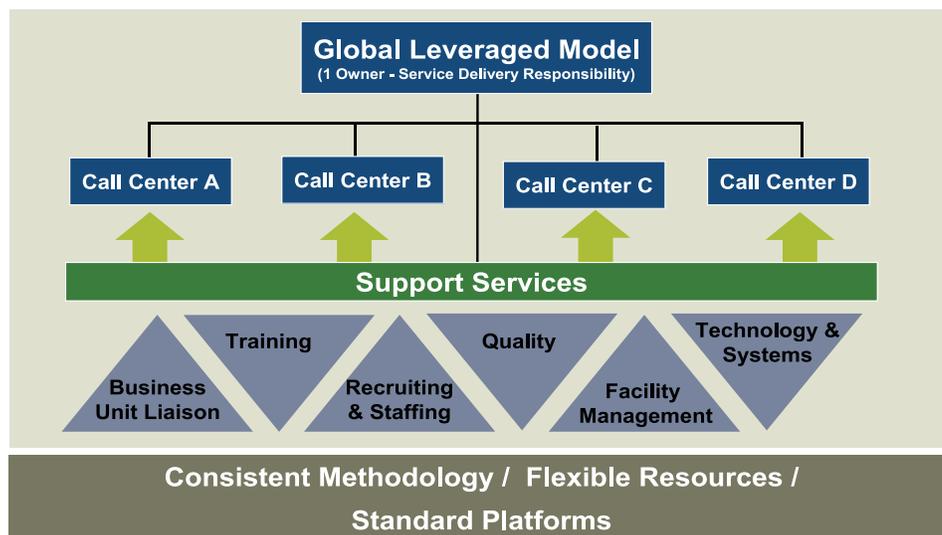
In summary, outsourced service providers are claiming a larger share of the contact center market spend, as spending on outsourcing has grown for four consecutive years. There are five drivers behind this shift in spending patterns to more outsourcing:

1. Performance improvement by service providers
2. Significant cost reduction potential
3. Growing executive-level acceptance of outsourcing as a business practice
4. Declining in-house capabilities
5. Rising customer demand for multiple support channels

Each of these drivers continues to influence decision making, so more growth in contact center outsourcing is expected. The following sections explore these drivers and their implications in more detail.

## PERFORMANCE IMPROVEMENT BY SERVICE PROVIDERS

In contrast to in-house operations, service providers have been improving scale, efficiencies, processes, platforms and supporting tools and technology. As a result, the top-performing service providers have emerged as the best practice leaders for contact center operations. The rise of service providers is significant because historically in-house operations were always the top performers in contact center management. While not all 350+ service provider organizations represent best-practice delivery organizations, they are all gradually improving and maturing their services delivery models.

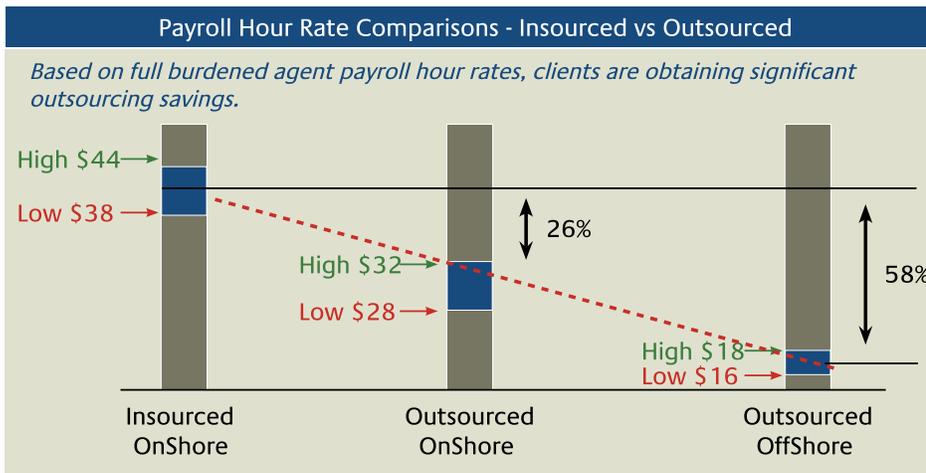


Initially, service providers were engaged primarily because they provided a cost advantage or some type of “peak volume overflow” capacity that clients could not staff themselves. While that rationale is still evident, they are also now commonly used by a growing number of clients to provide a service upgrade. Investments in sophisticated technologies, strategically located operations, and an unwavering focus on contact center management are combining to produce performance results that most companies can’t match. Several service providers have also made strategic acquisitions to gain vertical industry expertise. The new services and improved service levels now available from outsourcing service providers are especially valued by organizations that seek to increase their focus on their core capabilities and improve their competitiveness.

### COST REDUCTION POTENTIAL

Growing complexity and the weak economy combine to produce one bright spot for contact center operators: conditions are favorable for outsourcing buyers. High internal operating cost and less-than-optimal agent productivity at many companies may turn the tide in favor of outsourcing. Plus, the economic slowdown is helping the service providers’ performance as attrition rates (a long-running objection to outsourcing) are improving dramatically and wage pressures are dropping in both offshore and domestic markets.

Historically, many U.S. companies have realized a 20 to 25 percent (all-in) run rate cost savings by just outsourcing contact center operations to onshore locations. Today, offshoring certain customer portfolio segments (to the Philippines for example) can double that cost savings to more than 50 percent. This dramatic cost reduction has been the primary driver behind many firms moving customer service and support functions for certain customer segments offshore. As with outsourcing as a whole, there is growing acceptance for offshoring as a business practice.



### GROWING EXECUTIVE ACCEPTANCE

Today at many companies, there is a growing acceptance in the C-suite toward outsourcing the customer service function. Senior executives have all experienced successful examples of outsourcing the contact center function at other firms and are anxious to “cache” the cost savings. In addition, at many firms (but not all) senior executives are coming to believe that their firms are losing their edge on what used to be a core competency in contact centers and that the market leading service providers are now setting the standards for best practices. This is why many Fortune 1000 firms have now moved to outsourcing part or all of the CCS function as a business strategy.



20 YEARS  
1989 - 2009

Many outsourcing initiatives began small, but accelerated when service providers began consistently delivering good service levels at reduced costs. A sample list of corporations who have outsourced some or all of their customer service and support functions include: Adobe, AT&T, Bank of America, Best Buy, BMW, Cisco, Citigroup, Comcast, Dell, GM, DIRECTV, Hewlett-Packard, Kaiser Permanente, Kraft, Microsoft, Panasonic, Procter & Gamble, Roche, Sprint, Sun Microsystems, Symantec, Toshiba, United Airlines, UnitedHealthcare, Verizon and Xerox. This is just a sample of firms who have outsourced contact center services, but it well illustrates how the practice has grown beyond the traditional core markets of financial services, telecommunications and travel. Even industries that have traditionally been slow to adopt outsourcing because of industry-specific regulations or other challenges, such as pharmaceutical and brokerage, are beginning to outsource at least part of their contact center operations.

### **DECLINING IN-HOUSE CAPABILITIES**

Many companies simply aren't keeping up with their customers' changing requirements and service expectations, as a result of business decisions and other investment priorities impacting customer service. Continuous years of budget cuts and postponed technology upgrades have left them with dated tools, processes and methods. In many cases delays in upgrading systems and investing in improved contact center processes have resulted in a gradual decline in productivity and service effectiveness. As the economy continues to struggle in the near-term, pressure to cut cost and reduce capital expenditures will only increase. The end result is that many companies may fall further behind and the gap between their internal operations and "best practices" will only widen.

### **RISING CUSTOMER SUPPORT DEMANDS**

Companies are requiring contact center managers to do more with less and to offload phone contacts to lower cost channels at a time when customers are expecting improved customer service.

Customers want the flexibility to engage through the phone, e-mail, online, self-service models, social media, and other emerging methods. These customer demands put pressure on organizations to integrate and support multiple channels. This becomes particularly challenging at some companies when dated systems and tools are not able to provide a single customer view, customer self-service access to account information, or a consistent customer experience. The daunting and costly task of fixing "all that is broken" often leads to a serious consideration of outsourcing the function as a business strategy. In many instances when we have seen clients facing significant investments required to improve their CCS capabilities, they have turned to leading outsourcing firms, who already have the capabilities in place and can take them there quickly and less expensively.

### **CLOSER LOOK: WHO CAN BENEFIT MOST IN THE CURRENT ENVIRONMENT?**

As noted, outsourcing contact center services can yield run rate cost savings of 20 to 50 percent. Actual results vary according to the size of the opportunity (number of agents), industry, geography, complexity and other factors. One of the more interesting developments from the recent market expansion is the sheer number of service providers of all sizes who have entered the marketplace. A byproduct of this is that a number of highly capable smaller firms with the latest technologies are very interested in acquiring the contact center business of smaller and mid-market firms. So, outsourcing services providers are no longer just targeting the largest companies. We have seen some extremely successful outsourcing programs implemented for companies with fewer than 100 agents. As such, companies now have to rethink whether outsourcing is feasible, practical or beneficial to their organizations. The following sections highlight contact center outsourcing issues and opportunities for companies with different profiles.

**Business strategy for smaller firms** (less than 100 CSRs) – Companies with less than 100 customer service agents often find difficulty attracting the attention of the Tier-1 service providers because of



20 YEARS  
1989 - 2009

the size of the business opportunity. However, the current economic slowdown has created somewhat of a buyer's market. Many larger service providers who are trying to maintain growth in the slower economy have lowered their minimum opportunity thresholds and are very open right now to talking to firms with smaller needs. Likewise, if a smaller firm operates within a limited geography and scope (less complexity) there are several very capable mid-size contact center outsourcing firms who would be interested in acquiring their business. The mid-size providers typically have less global coverage and are usually concentrated within a couple specific regions. They often have good technology, tools and platforms, less scale and are typically not as mature in their business processes and methods.

**Midmarket companies** (200 to 500 CSRs) have more outsourcing options, but also have more variables to assess. For example, operations of this size are on the cusp of justifying multiple center services delivery solutions (multiple sites). Multiple sites for operations of this size can provide balance, backup and flexibility while still achieving attractive agent occupancy rates for clients. The cost savings potential is within the ranges discussed earlier, but can vary depending on the blend of work (call types). In a highly homogeneous environment (large volumes of a few call types) significant efficiencies and productivity gains can be achieved. In a more heterogeneous environment (smaller volumes of many different call types) efficiency gains may be more difficult to achieve. These variables also can impact the one-time transition costs of the final business case net present value required to support any outsourcing decision.

Most service providers are very interested in this segment, but they may tend to give higher priority and their best resources to their largest clients. As a result, the client organization must ensure that its contract terms protect its best interests and make certain it receives the full range of services and commitments for adequate account management resources. When considering potential service providers, midmarket companies are often faced with

having to decide whether they want to be a small fish in a big pond (by contracting with a large service provider), or a big fish in a small pond (by working with an emerging player in the segment). There is no historically right answer. The decision depends on cultural fit, the service provider's proven capabilities and track record with other clients of similar size, financial stability of the firm, and the client's ability to negotiate favorable business terms and protections.

**Large enterprises** with significant agent populations (more than 500) have long been the most attractive accounts for the largest contact center services providers. Larger buyers can more easily attract the Tier-1 service providers as well as emerging Tier-2 companies. This generally improves (but does not guarantee) their chances of getting the best and brightest account staff, the leading service and support, and best position them to benefit from scale and multi-site operations. Workloads can be balanced, while knowledge tools and advanced technologies such as intelligent call routing, IVR, scheduling and workforce management systems can be effectively implemented. Large firms are also best positioned to gain the maximum cost saving benefits and have more leverage to negotiate favorable contract terms.

## A BUYER'S MARKET

The current slowdown in today's global economy has created a bit of a buyer's market for those considering outsourcing their CCS now. Service providers are facing a softening of market demand as contact volumes fall in certain sectors of the market (financial, retail, travel). They are also realizing some benefits as higher unemployment rates are having a positive impact on attrition and creating a downward pressure on wages. The combination of these circumstances has several major service providers aggressively seeking new clients and offering very competitive pricing for services.

The expected "temporary" softening of demand creates an opportunity for the larger service providers



20 YEARS  
1989 - 2009

to rebalance their portfolios, closing or shrinking capacity in their highest cost centers while building or increasing capacity in their lower-cost offshore centers. It is also an ideal time for some service providers to shift some work volumes to their growing at-home models where capital requirements are very low and services can be provided at slightly more attractive price points.

As many companies with their own internal contact center operations face these same circumstances, their ability to “rebalance” their contact center portfolios is limited by the scale of their operations. As contact volumes decline, their overall support cost per customer (or per contact) will likely increase, giving them another reason to consider outsourcing as a business strategy.

## NAVIGATING THE SERVICE PROVIDER LANDSCAPE

It may be a buyer’s market, but evaluating and choosing the right service provider may be more difficult than at any time in the history of contact center outsourcing. Market growth is a major reason – with more than 350 firms offering contact center outsourcing services. Market fragmentation is another factor, as no single service provider owns more than a 5 percent market share, and the top 10 firms combined account for less than 25 percent of the market. Fewer than 10 firms have a truly global footprint with service delivery capabilities to all regions.

With so many companies trying to differentiate their service offerings, contact center managers are hard pressed to keep up. They can’t be expected to stay current with service offerings, business terms, pricing constructs, financial strength and other developments in the service provider market. Our client work has shown us that some leading companies’ customer support vice presidents are not even aware of who the leading Tier-1 service providers are. However, contact center managers are expected to do what is best for their customers and their company, so they may need to get some help when navigating through this services market.

There is a lot at stake in the choice of service provider and the terms of the services agreement that is developed. Done right, the client can expect significant immediate cost savings and improved service levels that will provide a competitive advantage. Done incorrectly, results are unlikely to meet expectations and can mean performance declines and additional costs required to “undo” or correct a flawed services agreement. Unfortunately, agreements and service provider selections are often imperfect, giving the market for outsourced services a mixed reputation.

We attempt to classify the more than 350 firms who market contact center services into three basic tiers largely driven by size, scale, breadth of service offerings, global reach and capabilities.

1. Larger Tier-1 firms who developed their contact center services offerings as either an outgrowth of their ITO / BPO business models ( such as Accenture, ACS, CSC, HP/EDS, IBM – the global integrators), or as their primary services offering (Convergys, Sitel, Sykes, TeleTech, Teleperformance – the “pure plays”). These firms tend to be recognized market leaders, exhibit best practices, have global scale, reach and services delivery capabilities.
2. Tier-2 firms who tend to have examples of best practices, regional strengths, some industry segment leadership and are building a global reach or offshore services delivery capability (such as APAC, StarTek, PRC, Sutherland, Stream)
3. Tier-3 firms who tend to be smaller in terms of the size of their contact center services business, provide these services as a complimentary offering to their other services, provide primarily offshore services and/or have niche offerings or industry-specific expertise (such as 24/7, PeopleSupport, Wipro, WNS, TCS, HCL, Cognizant, Infosys, Vertex, etc.)

## RESOURCES FOR MAKING THE RIGHT CHOICE

There are resources accessible to firms who need assistance and advice in assessing their current



20 YEARS  
1989 - 2009

contact center environments and the potential benefits of outsourcing as a business strategy. When you consider the potential financial (25 to 50 percent cost savings) and performance benefits of outsourcing, and the associated business risk of making a mistake in the process, many firms seek outside consulting advice as an insurance policy. Clients often need help not only in assessing the potential financial benefits of outsourcing, but also in defining their requirements adequately, navigating the service provider landscape and in developing a services agreements with standard client protections in case things don't go as planned. This type of insurance is often money well spent to lock in promised cost savings and to structure an agreement that will deliver improved performance, productivity and technology leverage to the current services delivery model.

TPI has a practice area and services line dedicated to contact center services and we have advised almost 70 clients in the past five years on developing and implementing strategies related to outsourcing contact center services. Our services include:

- Assessments of existing contact center operations
- Development of financial models that compare a client's internal cost of services to the outsourced market rate for like services
- Development of internal operational improvement strategies
- Outsourcing strategy development
- Existing outsourcing contract reviews and gap analysis
- Implementation and support of internal improvement strategies and outsourcing strategies (including requirements definition, service provider selection, service level requirements/agreements, services pricing constructs, business terms, contract negotiation)
- Outsourcing services and contract development support
- Assisting clients in developing and implementing detailed transition/migration plans for proposed outsourced services

We assist clients in evaluating their current environments, including analyzing their current spend and comparing it to the outside market cost for like services. In most instances, clients do not have an accurate view on their "all-in" cost per agent payroll hour, as they are not able to normalize their internal costs for actual hours of work delivered or productivity levels achieved by each customer service representative.

We also help clients develop outsourcing options to lower their current cost structure, improve technology leverage and move toward standardized processes, systems and tools across all contact centers. In many cases clients have a customer segment that can be best served by lower-cost offshore models, but which is not the best solution for higher-value customer segments. Our assessment and strategy work often uncovers opportunities for internal improvements if outsourcing is not a preferred option.

## CONCLUSION

This paper has highlighted some major developments of the last several years that have reshaped the contact center outsourcing services market. These developments have created opportunities for companies who need such services to effectively support and service their customers. Outsourcing is now an accepted practice and used as a business strategy by many well-known companies. The benefits of cost savings and improved performance are well documented and consistently realized when companies develop and implement an effective sourcing strategy and service management plan. Several important conclusions discussed in this paper are:

- **The leading service providers have gotten better**, are performing consistently and saving their clients money.
- **Cost savings continues to be the single biggest factor in the growth of outsourced services**. Many companies can realize run rate cost savings of 25 to 50 percent by outsourcing



20 YEARS  
1989 - 2009

their internal CCS. The largest gains are realized by moving work offshore, but 20 percent gains are still being achieved through onshore and at-home services delivery models.

- **Outsourcing of CCS has become a widely accepted practice among Fortune 1000 firms and is a preferred business practice for many.**
- **Tier-1 service providers have emerged as the best practices leaders in the marketplace.** Their continued investments in technology, global expansion of services delivery, ability to leverage their scale and development of standard processes, tools and operating models have put them in a class by themselves, which few client organizations can match.
- **Many companies' internal CCS-related capabilities have declined over the past several years** as budgets have been continually reduced and requests for technology investments and upgrades have been denied. This in part has fueled the near-double-digit growth in the market for outsourced services during the past four years. Today, 22 percent of all CCS spending is for outsourcing.
- **The market for contact center services is highly fragmented.** There are no dominant players, as no one firm has more than 5 percent of the market, and the largest 10 firms comprise less than a 25 percent market share. More than 350 firms offer such services. Navigating through this landscape of service providers requires skill and experience.

- **Attaining the promised benefits of outsourcing is not guaranteed.** Companies need to develop well-thought-out sourcing strategies and implement them carefully. Documenting requirements, selecting qualified service providers, choosing the right pricing constructs and service levels and negotiating favorable business terms in the services agreement all require skill and experience. Sourcing advisory firms can often bring their expertise to bear to assist clients in this process. Their experience and knowledge greatly increases the probability of developing favorable lasting agreements that deliver on the benefits promised up front.

#### LOOKING FOR A STRATEGIC PARTNER?

TPI's Contact Center Services experts can help you achieve your organizational goals through objective advice, knowledge of your industry and experience with arrangements from simple to complex.

Looking for a strategic partner? Contact **Mike McMenamin**, Associate Partner & Director, Contact Center Services, TPI, at **+1 303 882 6086** or **mike.mcmenamin@tpi.net**. For more information, visit [www.tpi.net](http://www.tpi.net).

## ABOUT THE AUTHOR:

**Mike McMenamin** leads TPI's Contact Center Services team, bringing extensive knowledge in business process outsourcing (BPO) and information technology outsourcing (ITO) to the delivery of outsourced services for the company's clients. He has subject matter expertise in the global delivery of outsourced contact center services.

Mike's industry experience includes working in healthcare, energy, communications, high tech manufacturing, defense, financial services, transportation and consumer products sectors. He has amassed experience in the delivery of and contracting process for outsourced contact center services, as well as information technology services. He has been instrumental in developing intellectual property for TPI's contact center services group used to assess client operating environments and to standardize the definition of client requirements, service levels and pricing structures for building outsourced services agreements.

During the past six years at TPI, Mike has advised several Fortune 500 clients on both business process and information technology outsourcing initiatives. This work has included strategy and assessment engagements as well as transactions for global firms seeking cost savings and improved service delivery models. He has led TPI engagements on four competitive sourcing transactions from RFP development to contract award valued at more than US\$1 billion. In 2008 his engagement work included a large offshore contact center services transaction, a contact center services assessment for a firm with global support operations, and the resourcing of a large ITO services agreement.

Prior to joining TPI, Mike was a client delivery executive with EDS. He oversaw the delivery of contact center services solutions for clients at BAAN, BellSouth, GM, HP, Informix, Maxtor, Mitsubishi, Nestle, Pepsi, Philip Morris and Toshiba. Service offerings included inbound customer support, inbound technical support, emergency roadside services, inside sales support and outbound selling programs. He also held account executive, business development and sales executive positions for EDS Energy, Communications and Defense strategic business units. In these roles, Mike focused on building client relationships, identifying client business needs and matching EDS service offerings with requirements. Prior to that he was a senior consultant at Accenture, where he was responsible for addressing clients' business requirements and information processing needs.

Mike holds a Bachelor of Science degree in Computer Science and a Master of Business Administration degree from Cornell's Johnson Graduate School of Management.

## ABOUT TPI

TPI, a unit of Information Services Group, Inc. (ISG) (NASDAQ:III, IIIIU, IIIIW), is the founder and innovator of the sourcing advisory industry, and the largest sourcing data and advisory firm in the world. We are expert at a broad range of business support functions and related research methodologies. Utilizing deep functional domain expertise and extensive practical experience, TPI's accomplished industry experts collaborate with organizations to help them advance their business operations through the best combination of business process improvement, shared services, outsourcing and offshoring. In addition, TPI Momentum, a business unit of TPI, provides information and insights to outsourcing and offshoring service providers to help them provide enhanced services to their sourcing clients. For additional information, visit [www.tpi.net](http://www.tpi.net).

### AMERICAS

Mike McMenamin  
Associate Partner & Director  
Contact Center Services  
+1 303 882 6086  
[mike.mcmenamin@tpi.net](mailto:mike.mcmenamin@tpi.net)

### EMEA

Denise Colgan  
Marketing Director, EMEA  
+44 0 1737 371523  
[denise.colgan@tpi.net](mailto:denise.colgan@tpi.net)

### ASIA PACIFIC

Arno Franz  
Partner & Regional President, Asia Pacific  
+61 0 2 9006 1610  
[arno.franz@tpi.net](mailto:arno.franz@tpi.net)



knowledge powering results