



The Industry in Numbers

by Sid Mandel

There are two very interesting things I noticed when I returned to the TAS (Telephone Answering Service) industry from my 5 year hiatus. The first is that it is really is a “mom and pop” industry, and the second is that there has never been a definitive overview of this 1.2 billion dollar industry. Today’s TAS is generally a privately owned service handed down from one generation to the next and has been established for 15 years or longer. Only recently has there been a few market savvy consolidators prying away the layers of this cottage industry and integrating the technology necessary to keep current with the changing face of today’s world of communications. Inherently resistant to change, the TAS industry still embraces 1950’s technology and ideology. The TAS / Call Center market is growing despite indications within the TAS segment of the industry of less profit and fewer customers. The consumer base is starting to shift to call centers that can accommodate their business model and supply instant communication and validation. The most underused resource is the internet in this industry. The uses of connectivity, remote operators, marketing, sales, customer service, human resources, customer relations, call management, bill processing, and customized services, are being ignored. The outlook in the near future is positive for the 10+ seat modernized centers because of the advances in impersonal communication technology. Contrary, the future is very dim for the large North American dedicated call centers. With the advent of inexpensive global telecommunications and call centers populated by skilled inexpensive labor from the Pacific Rim and India, companies are now outsourcing much of their customer service, technical and order taking calls.

The TAS market has always been included in studies of Call Centers, and never defined by itself. The “Call Center” industry encompasses the fee-based TAS/Call Centers and corporate dedicated in-house call centers. For this report, I have defined a “telephone answering service” as a fee based, 3 to 75 seat center. The fee based “call center” runs from 75 to 500 seats that are usually outbound telemarketing centers or inbound order taking centers. The large dedicated call centers (financial, credit card, customer service and commerce centers) have 200 to 5000 seats. I have also left in as much of the referred to authors original text and conclusions as not to dilute or pervert their meaning.

The Industry: In 2001 there were 55,800 call centers in North America, of which 90%, or 50,200, are located in the US. The total number of call centers in North America is expected to increase to 58,800 in 2007, representing a CAGR (compound annual growth rate) of 0.89%. The Telecommunications, outsourcing and retail banking industries represent the largest vertical markets in terms of agent positions, accounting for over 50% of North America's total agent positions. The fastest growing call center



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size-band segment from 2001 to 2007 will be the 10-30 agent position segments, with a CAGR of 4.9%. (Opportunities in North American Call Center Markets to 2007 Report No. DMTC0860 Published 28 Jan 2003 Datamonitor). The estimates indicate that Call centers handle more than 70% of all business transactions in the US. (Despite the growing presence of call center workers, the Labor Department has counted only some of them: 1.9 million customer service agents in 2000 and 462,000 telemarketers. The rest are hidden in other classifications, as technical support personnel, reservation clerks, temporary workers, bill collectors, mortgage brokers, 401(k) administrators or catalog order takers. According to industry estimates at least 3.5 million people work at call centers; three out of four are women. The 3.5 million represents 2.6 percent of the nation's work force. (Uchitelle, , 2002 Call Center Statistics, 2002)., The total is probably higher, perhaps as many as 6 million, according to estimates cited by Call Center Magazine, including one estimate from Datamonitor, a research firm.

The Growth Rate: The growth rate in expenditures on US call centers in 1998 delivered a 26% increase in spending over the previous year. In 2003 that figure jumped to 39%. The growth rate reflects 16% CAG in industry spending with CRM (client retention management) expected to constitute the largest expenditure among corporations (Statistics for European and US Call Centers- epaynews.com).

The Size: The size of the fee based TAS/Call Center market has been stable, and is now expanding in relation to the growth of its clients in the medical, professional and Small Office-Home Office (SOHO) business market. According to the DOL (Department Of Labor) there are 8,843 locations that are outbound/inbound and /or fee based calling centers which employ 511,000 people (US dept. of labor, 2000 County Business, www.bls.gov.OES, June 24). This represents the broad figures on all fee based TAS/Call Centers which include multiple locations for the same organization. There are approximately 4,450 TAS (answering services which include medical answering services) with gross annual revenues of \$2.7 Billion. They service 2.29 million clients and average about 514 clients each and generate an average of \$627,000 yearly. (Peter DeHaan, Ph.D. Connections Magazine) The fee based TAS industry employs 227,000 full time operators according to the U.S. Dept of Labor's *2001 National Occupational Employment and Wage Estimates*. Their primary client base, the medical industry is growing. There has been a 19% growth in medical industry billables according to the Producer Price Index Series Id: PCU8011# (N), over the last 10 years. A 2.3% annual growth in the number of offices of medical practitioners was seen between 1990 and 2000 and an estimated 1.7% annual growth is anticipated until the year 2010 is stated in "Industry output and employee projections to 2010", Jay M. Berman, Monthly Labor Review, 2001. In the same publication's November, 2001 edition, Daniel E. Hacker states "Of the 30 fastest growing occupations in this country 17 are health-related and 10 are computer-related" This translates to steady growth in this industry, and for those who serve it. Worldwide spending on customer relationship management services, such as call



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centers and online computer help desks, are expected to rise at least 20%, to more than \$40 billion, this year. And it should more than double that figure in the next four years. By the year 2003, firms are expected to spend \$90 billion a year on CRM, This in contrast to a 1998 worldwide CRM total of \$33.2 billion in spending. CRM is defined for these purposes as "a variety of services used to design and operate customer-care systems that help companies attract, retain, service and expand customer relationships to generate business and improve the consumer experience.(IDC, 10/99).

The Potential: One focus for the TAS market is the SOHO market. The SOHO market is the fastest growing market segment for the TAS/Call Center Industry. The forecast of overall IT spending in the SOHO business market for 2002-2006, is expected to be nearly \$39 billion for IT products and services by year's end according to "*Darwin Strikes Back: IT Spending and Evolution in the US SOHO Business Market -1 to 4 Employees*", U.S. Business: Small & Home Office Markets Report Number: IN020066SH, December 2002 from In-Stat/MDR. Despite being home to the most nimble and untraditional businesses in the US, the SOHO business market suffered greatly in last year's economic down turn. This market shrank in size and growth dramatically, falling to just over 8.2 million firms, down more than 7% from the year before. Though micro-businesses like these are able to respond to market changes more quickly than their larger counterparts, in difficult times, these are the businesses that generally suffer the most. Parenthetically, these businesses are generally the first to benefit from economic improvements and stability. With economic indicators indicating a stable economy the SOHO business market is showing a positive growth this year. This market is expected to grow to more by than 8.3 million businesses, employing nearly 18 million workers. Over the next several years this market should show steady growth and is expected to reach more than 9.5 million businesses by 2006 according to U.S. Business: Small & Home Office Markets, *The Changing Economy: A Demographic & Vertical Industry Profile of the SOHO Business Market -1-4 Employees*, Report Number: IN020061SH, August 2002 from In-Stat/MDR.

Missing The Boat With New Technology: A study of government customer service sponsored by Kana, a CRM solutions provider, found that 55% of citizens would prefer to interact with government agencies using Web-based tools (including email, online self-service and chat), but 78% still consider the phone the most effective way to receive an answer in a timely manner. *Kana, 6-24-2002*. A study done by L Brown of University of Pennsylvania shows that 30% of callers will only speak to a live operator, while out of the remaining 70%, 20% abandoned the phone call all together. (Statistical Analysis of a Telephone Call Center: A Queuing science perspective Lawrence Brown, November 2002). The combination of Internet based services with TAS services is where the new market is emerging. People are more comfortable today with using the internet and its ability of instant access and interaction. The combination of supplying live operators to support transactions with the consumers removes the rigid structure inherent in computer



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programs (and voice mail systems) and allows a smoother more comfortable contact for the consumer. With only 8% of US call centers that are currently Web-enabled (Web-Enabled Call Centers: Filling up the Shopping Cart", Datamonitor report, 2003) the US is slow to embrace the technology and opportunity emerging with the proliferation of the internet. Businesses have lost \$1.6 billion on-line last year by failing to Web-enable their customer service operations. This amount could double to \$3.2 billion by this Christmas. Datamonitor's research indicates that the key to growing e-commerce profits is to maintain customer loyalty by offering live on-line customer service from representatives in call centers. (They fix the total number of US centers at 69,500.)

European Markets:

The Industry: Europe's call center market is around \$9 billion. Great Britain, France, Germany and Holland together accounted for 80% of call center sales revenues within the 15-member European Union EU. During the five-year period from 1999 through 2003, sales of call center systems among those Big Four will total more than 1.8 million seats, over \$3.6 billion in base revenues, and over \$9 billion in gross revenues. (Pelorus Group, report entitled European Call Center Markets, 3/00). The number of call centers in Europe will grow from 12,750 in 1999 to 28,289 in 2006." (Frost & Sullivan, 6/2000) There are currently 600 networked call centers in EMEA (Europe –Middle East Africa); by 2007 this number will have tripled to over 1,800. (Networked call centers: key service provider opportunity Brief No.BFTC0798 Published 24 Jan 2003). The Number of Web-enabled centers in 1998 were 100. By 2003 that number exceeded 3,400. The gross expenditures on EU call centers in 1998 was 550 Million. In 2003 that figure jumped to 1.2 Billion. Growth rate reflects 16% CAGR in industry spending with CRM (client retention management) predicted to constitute largest expenditure among corporations.

The number of agent positions in EMEA (Europe –Middle East Africa) will grow from 1.3m in 2001 to 1.8m in 2002. This represents a CAGR (Compound Annual Growth Rate) of over 7%. The largest call center market in EMEA is the UK. 2.2% of the British working population works in call centers, nearly twice the EU average of 1.2%. The fastest growing call center market in EMEA is the Czech Republic, while the slowest growing is Ireland. The fastest growing vertical markets in EMEA are public sector and outsourcing (Call Centers in EMEA to 2007, Report No.DMTC0852 Published 02 Oct 2002, Datamonitor)

Mintel estimates that by 2003 there will be 270,000 employees working in the call centre sector, equating to around 1.6% of the full-time work force. Many of these employees will be working in the financial services sector. Mintel estimates that around 37% of call centers in the UK are financial services operators. Currently, only 5-10% of financial service companies outsource some of their call centre function to a bureau, with



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the rest having their own call centers. However, it is forecast that more financial services providers will outsource call centre functions in the future.

The European Consumers: The European markets are not dissimilar to our own. Latest research from Mintel reveals time spent on hold as being the greatest cause for concern for consumers phoning call centers. Despite figures forecasting a double in the market size by 2003, nearly 24 million adults miss the personal touch offered by a branch or office. Almost 60% of the 1,946 adults questioned by Mintel, accounting for over 28 million adults, get angered or frustrated with the service they receive when using automated telephones. Of greatest annoyance is the time they spend on hold, which is cause for concern for 44% of adults, followed by the music played, which annoys a further 36% of consumers. Nearly one fifth of adults claim to hang-up frequently or all the time after being caught up in an automated telephone system of a financial services provider. Another 24% of adults sometimes hang up. (Issues causing anger and frustration for automated telephone service users, Mintel, November 1999)

Mintel estimates that in 2000 around 700 million calls will be made from UK residential phone lines to call centers working in financial service sectors, equating to 2% of all calls made from UK homes. Calls to other non-finance, call centers will account for a further 6% of all call volumes. This equates to an average of 15 calls per person being made to finance call centers in 2000. In terms of telephone usage, 22% of all adults use the telephone to make general enquiries into financial services and/or products. Despite the widespread use of call centers, 49% of respondents or around 23.6 million adults agree they miss the individual service that going to a branch or office offers. The majority of consumers - almost 70%, do not appreciate incoming sales calls. In fact only 15% of adults are actually willing to listen to incoming calls offering services on behalf of various institutions. Those aged 15-19 are the most tolerant to sales calls with 25% of this age group accepting calls, in contrast to fewer than 10% of those aged 65 plus.

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There is a higher level of tolerance for listening to sales calls when making outgoing



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calls, compared to listening to sales messages from incoming calls. Some 24% of adults, or around 11.6 million people, said they would welcome news of products their main current account provider is willing to offer when they contact them by telephone.

The Internet: Despite the economic conditions in general and the rather entrenched IT fallout experienced in the European market in 2002, Internet penetration overall has shown steady growth rates. In 2002, the total number of Internet users in Europe reached 184 million. In 2002, the Germanic region and the U.K./Ireland accounted for almost 47% of all Western European users and have online PC penetration of somewhere between 80% and 90%. Currently, it is still the Anglo and Germanic clusters that have the most buyers, together about 50%. This will change in 2006, where they will only have 38% of the Western European market. The new growth area is southern Europe, which is forecast to grow from 34% in 2002 to 43% in 2006 (excerpts from "Western European Web Spending Forecast and Analysis, 2001-2005" by Daniel O'Boyle Kelly Feb 2002 Doc #I013 IDC).

Historical Market Growth of New Technology:

Historical Market Growth (Telecommunication): By any measure, the telecommunication industry has grown dramatically over the last century. During the first three-quarters of this century, growth in telecommunication came mainly from wireline applications and was largely due to growth in developed countries. However, during the last quarter of this century, growth has come as the result of three main influences: global deregulation, the advent of wireless technologies, and the building of infrastructure in developing countries.

As the demand for telecommunication grew over the past century so has the infrastructure. In the past 37 years the global telecommunication network has grown at a fairly constant rate and generated a compound annual growth rate of 5.9% per year, resulting in an enormous increase in main telephone lines worldwide. By the end of 1997, it was estimated that there were approximately 800 million main telephone lines installed worldwide. Main telephone lines represent a physical connection between a subscriber and an exchange and therefore exclude wireless connections. By the end of 1996, approximately 40 percent of all households worldwide had a telephone; conversely, 60 percent or some 870 million households did not. By far the largest percentage of those households that did not have a telephone was in developing countries. The rapid growth in main telephone lines and teledensity has led to a corresponding increase in telecommunication service revenues.

As previously mentioned, the historic growth in telecommunication services over the past quarter century is not entirely attributed to growth in traditional wireline telephony. Since the early 1980's, the rapid growth of wireless services has accounted for a



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significant portion of the entire telecommunication industry growth. Obviously, individuals are a thriving and expanding market worldwide.

Internet: Closely related to individuals and a relatively recent development, the Internet is poised to change the way we communicate. The Internet was originally developed in conjunction with the U.S. Government in the late 1960's to be used as a failsafe means of communication in times of war. Subsequently, during the 1970's and 1980's the Internet evolved into a civilian communications tool utilized primarily by universities and research laboratories as a means of sharing information. Not until the 1990's and the emergence of the World Wide Web (WWW) did the Internet come into the mainstream as a useful communications tool. The worldwide growth in the Internet, as measured by the number of host computers, started slowly but has increased rapidly during the 1990's. (Host computers are computers connected directly to the Internet and are a standard measure of the size of the Internet.)

Fueling this growth in host computers has been a tremendous growth in people who are connected to the Internet or "online." In 1991, only 4.5 million people were estimated to be online. In September 1998 it was 36,739,000 people were online worldwide. as of July 2002 there are 162,128,493 hosts (a computer system with registered ip address) and 35,543,105 web servers on line.(Hobbes' Internet Timeline Copyright by Robert H Zakon) On a usage basis, the U.S. accounts for the largest share at 55 percent. On an access basis, Canada is the leader followed by the U.S. Undeniably this is substantial growth, and this growth has created unparalleled opportunities for those providing Internet content.

Conclusions

To find meaning in all of this, I recall Bob Dylan's 1964 "The Times They Are A-Changing". They were then, and still are now!

The evolution of personal contact has fostered an ever-increasing need for instant communication with a "where-ever when-ever" mentality. The need to interact on the move whether by text or by voice is driving technology and creating a greater need for content. Instant information and communications for the masses is the reality of the day. Today's reality, however, comes with a price; the absence of human contact. Technology has automated both the telephone call and the caller's response. The more impersonal technology emerges the greater is our need for the comfort of the human touch.

The demand for the TAS/Call Center industry's live operators is growing as technology achieves more impersonal automation. The need is there! The numbers show a world-wide growth in call center services and the resources they offer. The race to provide personalized touch combined with the technology to facilitate businesses



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communication needs is underway. With only 8% of the US/Canadian centers having internet capabilities, the US/Canadian centers are falling behind. They're mired in the past and sightless to the changing landscape. Living off the medical industry without expanding into other vertical markets will spell the demise for the "MOM and POP" segment of the industry. Those that venture out to grab a piece of the outsource market will survive; the others will be swallowed up or fade away when their aging technophobic clients retire. Competition for the larger call center services are coming from small local marketing companies with 5000 seat call centers located in India's suburbs. The look of a corporate, dedicated, North American call center is fast becoming a bank of telecommunication equipment routing calls to some overseas call center.

The good news for the call center industry is that it is growing! Every segment of the industry is growing, fueled by the communication technology that sustains it.

The bad news is speech recognition is just beyond the horizon.

Sid Mandel holds (very tightly) a Master in Business Administration. He has blended his knowledge gained, from years of experience in the Call Center and Telephony Industries, (15 long years) with his experience as a Senior Business Consultant, for First Marketing Inc. to create the TurboSchedule™ line of products with Douglas Duncan.