

Winning on two fronts  
How outsourcing can win  
the battle to build value  
and reduce costs

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# Uncertain times

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The recession may technically be over, but it is abundantly clear that economic recovery will be slow. As consumers continue to spend cautiously and search relentlessly for competitive deals, businesses will suffer on two fronts. Low consumer spending will keep the lid on revenue growth, while the need to compete hard to keep existing customers will maintain pressure on prices. Either way, margins will be tight and demands for customer management operations to cut costs will continue.

There can be few customer management leaders that haven't already taken drastic action to shed every ounce of fat from their operations. They must be wondering how much more can be achieved without cutting into muscle and bone. They are right to be concerned. Draconian cost cutting now will compromise their ability either to maintain the high service levels needed to retain customers during the tough times or to recover quickly when the upturn finally comes.

Cost cutting measures that result in a degradation of service quality will prove a false economy. Today's challenge is to respond to the understandable need for cost reduction, while finding new ways to boost customer satisfaction, loyalty and spend.

In this paper Martin Kochman, Chief Strategy Officer for Transcom - one of the world's largest outsourced customer management providers – maintains that these two objectives need not be at odds with one another. He examines new trends in outsourced contracting that promise to deliver profitable business outcomes and savings that far surpass incremental per-call cost reduction.



This paper recommends advanced approaches to outsourcing that deliver business value as well as cost reduction.

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As economic pressures mount, the temptation for customer management leaders to focus on little other than incremental cost saving can be overwhelming. It's quite right that their focus should be on finances, but they are looking at the wrong end of the equation. Cost can only be a meaningful measure when it is balanced against value.

The real trick is to exploit the ratio between the cost of each customer contact and its potential value to the organization. For example, we are often asked by clients if we can reduce the cost per call. It's a reasonable question, but not always the most profitable one to ask. For instance, let's take the example of an inbound telephone sales operation. If it costs, say, €100 of marketing spend to generate a call, shaving a few cents off the cost of answering it (at the risk of compromising the sales opportunity) seems counter productive. Better, surely, to focus attention on increasing conversion rates in order to maximize revenue. The question to ask isn't 'how can this call cost less?' but, rather, 'how can this call deliver more?'

It sounds obvious, but the customer management industry has been beset by an uncompromising focus on efficiency since its inception. The simple truth is that this approach is fundamentally flawed. Research carried out across more than 100 contact centers by the UK's Aston University has shown that those centers which focus on customer outcomes rather than cost driven efficiency measures, actually operate at lower cost and generate greater value.

“Operations that are built around and measured by customer outcomes, rather than internal productivity, are inherently more profitable, since they are focused not only on reducing operational cost, but on transforming customer behavior; encouraging them to spend more, remain loyal and provide the advocacy that guarantees maximum revenues and long term business growth.”

'The Truth about Contact Center Performance',  
Aston University Business School



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## The contractual flaw

A narrow focus on efficiency has been the driving force behind most contact center outsourcing contracts. Forward thinking organizations have consistently looked to outsourcing as a means of reducing cost by leveraging the advantages of scale that dedicated customer management specialists are able to deliver. That's absolutely appropriate, of course. However, in tough economies, buyers are inclined to drive hard bargains and suppliers to surrender to them. In truth this is damaging for both parties and, sadly, for the consumer, too.

When the outsourced service provider's (OSP's) margin is eroded beyond an acceptable point, their temptation to cut service quality corners becomes almost overwhelming. For the buyer, this is likely to translate into an unacceptable level of risk for a minimal cost advantage. Around 30% of outsourcing relationships fail because the contracts they are based upon inadequately define the service experience the client expects the OSP to deliver and, in many instances, undermine its ability to deliver it.

Traditional outsourcing contracts focus on standard productivity criteria, such as calls per hour or schedule adherence. These are sound measures, but they ignore the issues that matter most; the quality of contact center interactions and the business outcomes they generate in terms of increased sales, improved customer satisfaction and enhanced revenue performance.

New contracting models, which share risk and reward by linking OSP remuneration to success, mean you're able to buy 'results' rather than 'activity'.

## Contracting for results

We offer the following advice for any organization that wants to forge outsourcing agreements that drive the real business agenda:

1. Take time to define the customer experience you want to deliver. It should reflect your brand and be designed to meet or exceed the demands of your marketplace. Share that understanding with your OSP, make sure they have a convincing plan to deliver it and that both your expectations and their plan are captured in the contract.
2. Work with your OSP to realistically assess the cost to deliver the desired customer experience and establish the financials of your contract accordingly. Make sure that productivity measures are balanced by customer outcome measures – customer satisfaction, sales conversion or customer retention performance, for example. While productivity can't be ignored it should be subservient to business results focused measures.
3. Link your OSP's remuneration to the delivery of business results, sharing the risk and reward involved in achieving those that add most value to your bottom line. Cost reduction will likely have a place, but should be balanced against and subservient to customer satisfaction and revenue measures.

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## Leveraging success

None of this is to say that outsourcing can't and shouldn't reduce costs. Indeed, there is a clear new development in contact center contracting that can deliver substantial financial benefits that far outstrip incremental cost per contact reductions.

There is an emerging trend towards leveraged outsourcing deals, in which the OSP takes over, not just the customer management activities currently undertaken inhouse, but the staff responsible for them, the premises in which they're housed and the infrastructure on which they depend. For clients the first benefit comes in terms of the fair market value paid for the fixed assets. The second is in the alleviation of long term asset management cost. The third, from the OSP's commitment not just to 'take over' but 'transform' the adopted operation, delivering ongoing operating cost reduction and performance improvement on an agreed glide path.

For organizations that have previously thought of outsourcing as a 'short term fix' or a means of managing volume fluctuations, this will be revolutionary thinking indeed. But, for those eager for substantial capital savings, it presents a very real opportunity.

The emergence of the leveraged outsourcing deal is the natural conclusion of an evolutionary process that, over the past five years, has transformed the way organizations and OSP's contract. In traditional outsourcing deals organizations simply transfer an agreed set of responsibilities to an OSP, who then undertakes those tasks with his own infrastructure and people.

Such deals are, of course, still the norm, despite their inherent disadvantages. First, the client is frequently left with expensive fixed assets that can be difficult and costly to unload. They also have to deal with a group of employees that is unlikely to accept offers to transfer their employment. For many organizations the cost of asset disposal and redundancy has eroded or negated the cost advantages gained through outsourcing.

The leveraged deal sidesteps these disadvantages because the OSP relieves the client of its fixed assets and people. The benefits to the client are obvious. But there are benefits for the OSP, too. They are able to acquire the fixed assets on which their future business growth plans depend at little risk, since they are acquired in tandem with a supporting revenue stream. As they build the productivity and effectiveness of the operation they've taken over (which, as experts they are well positioned to do) they can maximize the utilization of the asset with the addition of new work that has been contracted under more traditional terms from other clients.

And the OSP's drive for maximum asset utilization works in the client's favor, too. Leveraged deals are generally combined with a transformation program that will radically alter and improve operational performance.

One of our own leveraged deals, with a leading broadband provider, allowed us to take over an operation based in three of the company's UK contact centers and, after an eight month bedding in period, transfer the work to our contact centers in the Philippines and Lithuania, where operating costs are, respectively, 60% and 40% lower.

The offshore relocation of the work was eased for us because we were able to take over a stable operation and operate it in a 'steady state' for a period of time while we planned the transition, recycled the assets and managed the closure of the existing UK operation. And there was good news for the employees, too. Redundancies were kept to a minimum because many of the staff were able to transfer on to other Transcom client contracts.

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Entering into a leveraged deal requires a degree of maturity, sophistication and openness from both parties. Because such deals represent a considerable financial and strategic commitment from each that cannot be easily walked away from, they will typically be relatively long term deals of at least five years duration. The good news from the client's point of view is that they deliver both immediate and ongoing financial gain.

#### **Immediate gain**

- Cash injection from sale of assets
- Transfer of the asset base to the OSP eliminates investment required to keep those assets fit for purpose
- Immediate head count reduction giving improved 'revenue per head' performance

#### **Long term gain**

- Ongoing operational cost certainty
- A sustained and contractually committed cost reduction program that reduces operational cost over 3 to 5 years
- Reduced redundancy costs since the OSP will seek alternative work for staff no longer required

Such deals are unlikely ever to become commonplace, since they depend on a client and an OSP finding sufficient mutual motivation in terms of shared objectives and complementary business strategies. However, they are becoming increasingly popular. Transcom has completed four such substantive deals in the last two years.

Under the terms of a leveraged deal with a UK broadband provider Transcom:

- Transferred 774 staff to its own employment
- Ran the customer service operation in 'steady state' for eight months while planning a long term offshore move
- Successfully transferred the operation to its own centers in the Philippines and Lithuania, where operating costs are approximately 60% and 40% lower respectively
- Is working with the client to deliver an additional 15% annualized cost reduction by increasing first time resolution and streamlining processes.

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## Seven steps to secure a leveraged deal

For any organization interested in negotiating a leveraged deal, here are seven steps that will guide your steps:

**Step 1 - Understand your costs:** Evaluate the processes you're aiming to outsource and understand their fully loaded costs. Only then can you be sure that the cost model you enter into with your OSP will deliver value over the long term.

**Step 2 – Isolate the assets:** Make sure you're free to divest the asset alongside the processes you wish to outsource. For example, if the building that houses your contact center operation is also utilized by the business for other purposes, you may not be free to let it go.

**Step 3 – Identify potential partners:** Not every OSP has the appetite or resources for such deals. You need one who has:

- A proven ability to transform operational performance. Check references and talk directly to their clients.
- Financial stability, with a strong balance sheet and underlying profitability.
- Demonstrably good employment practices and a track record for successful employment transfer.
- An appetite for risk – a leveraged deal that isn't supported by a 'transformational program' that provides clear milestones for cost reduction delivery is questionable.
- Near and offshore capability. Even if you're not looking for immediate offshore options, your longer term strategy may take you in this direction.

**Step 4 – Be honest:** Since your OSP will be committing to a transformational process, their due diligence exercise will be meticulous. Be as 'open book' in your approach as possible, both about the finances and your long term customer management objectives.

**Step 5 – safeguard the customer experience:** Take time to define the customer experience you want to deliver and capture this within the contract. As we said earlier, linking remuneration to the achievement of clear business goals is a key to successful outsourcing relationships.

**Step 6 – Evaluate the outsourcer's proposal exhaustively.** You should expect it to contain:

- A detailed process for the transfer of assets
- A clear understanding of the business processes they'll be responsible for
- A thorough plan to manage the program in the 'steady state' period with clear plans for knowledge transfer
- A detailed transformational plan in which cost reduction milestones are clearly linked to performance improvements and the delivery of business objectives.

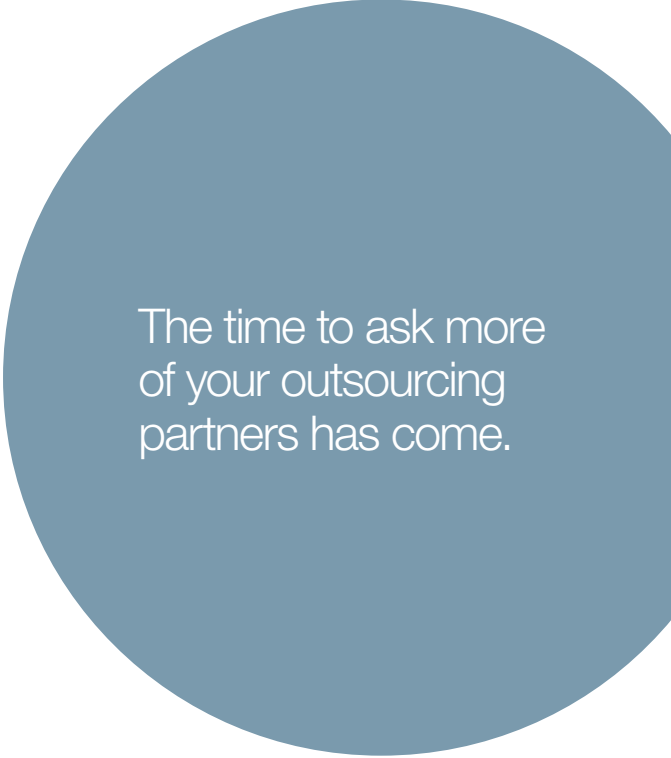
**Step 7 – Keep control of what matters:** The evaluation of quality, measurement of customer satisfaction and regular monitoring of regulatory compliance should remain in your own hands. In fact, we usually advise clients to engage a third party to evaluate our customer satisfaction performance and we expect our performance to be linked to it.

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## Seize the day

We started out this paper by stating that new outsourcing models present fresh opportunities, not just for incremental cost savings, but for the achievement of a major step change in operational performance and overall business profitability.

The current economic climate may breed caution, but experience shows that bold organizations, rather than timorous ones, are generally rewarded with the most dramatic success. Providing, of course, that boldness is tempered by diligence, strong governance and rigorous control.



The time to ask more  
of your outsourcing  
partners has come.

# About Transcom


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Transcom is a global outsourced service provider entirely focused on customers, the service they experience and the revenue they generate. Our customer and credit management services are designed to strengthen our clients' customer relationships and secure their revenue streams.

Our broad service portfolio supports every stage of the customer lifecycle, from acquisition, through service, retention, cross and upsell, then on through early and contingent collections to legal recovery. Expert at managing both customers and debt, we make a positive contribution to our clients' profitability by helping them win customers, grow business and secure their payments.

And, while our services are designed to maximize revenue, our delivery operations are built to drive efficiency. Through our global network we can provide service in any country where our clients have customers, accessing the most appropriate skills and deploying the best communication channels in the most cost-effective locations.

Every day we handle over 600,000 customer contacts in 33 languages for more than 350 clients, including brand leaders in some of today's most challenging and competitive industry sectors. The experience we gain is used to constantly refine our service portfolio, processes and delivery, allowing us to respond quickly to changing market conditions and client requirements.



Find out how working with Transcom  
could transform your customer and  
credit management performance.

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