

CONTACT CENTER OUTSOURCING

Evolving
Delivery
Models Shape
a Dynamic
Market

Mike McMenamin, Director



INTRODUCTION

The economic recession of 2008 has had a significant impact on the global Contact Center Services (CCS) outsourcing market. The rapid growth in offshoring CCS to the Philippines and India has subsided, while contact volumes, which had been growing, have been relatively flat as the global economy slowly recovers.

Today, the market is in relatively new territory, being shaped by new economic conditions that present businesses with both challenges and opportunities.

This ISG white paper examines recent developments in the global CCS market, including growth rates, the shifting political environment and the impact of new delivery models on client and provider strategies.

MARKET TRENDS

According to the most recent analysis from ISG's [Momentum™ Research](#), Contact Center Services stand-alone and bundled contract signings have been declining over the past several years, reflecting an overall market slowdown. However, the first half of 2013 was comparably stronger, indicating renewed confidence. The proportion of CCS-only contracts to the overall CCS awards held steady (70 percent) over the last three years, indicating that clients with high volumes of call center agents intend to focus on cost reduction. By revenue, the vast majority of CCS contracts have total contract value between \$10 million and \$50 million. However, contracts valued at more than \$200 million have nearly doubled over the last two years as clients bundle other service towers to gain economies of scale. Six of these contracts were signed in 1H2013 alone, compared with eight in all of 2011 and seven in 2012.

From a regional perspective, the recession has substantially stalled the march offshore. The 30 percent to 50 percent growth rates the Philippines experienced between 2003 and 2006 – driven by demand for English language call handling capabilities – has fallen off. Nonetheless, the Philippines has continued to be the preferred offshore English-speaking destination, and growth rates have stabilized in the 15 percent to 20 percent range. A large part of that growth is not organic (not net new to the market as a whole), but rather the result of workload being consolidated from other locations, with a significant part of that shift coming from India.

Contact volumes (calls, emails, chat) – have been flat for most businesses, and aligned with modest GDP growth rates of between 1 and 2 percent.

These reduced contact volumes have eased the “more-for-less” pressure on customer service budgets, as demand (workload) has not outstripped available resources.

In-sourced models have been making modest improvements during this slow period through cost efficiency initiatives such as consolidating facilities or expanding @Home agent models. These improvements have reduced the internal pressures for cost cutting. Also, improvements in self-help customer service applications (Internet-based support and expanding mobile applications) are shifting contacts to these lower cost channels.

Outsourced models have experienced flat or modest growth, resulting in an excess of supply in the marketplace and creating opportunities for continued consolidation (such as Sykes' acquisition of Alpine Access, one of the leading @Home providers). Suppliers' cost of labor has decreased or stayed flat, and traditionally high turnover has fallen dramatically. Indeed, in stark contrast to pre-recessionary times, many agents are grateful to have any job given the continued high unemployment rates in most major global markets.



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Many businesses have adjusted their strategies.

The expansion of the @Home model is having an impact on driving down costs – as onshore @Home agent models can now offer most insourced clients a 20 percent to 25 percent savings on current costs, with higher savings for less efficient operations. As the @Home delivery model has been fine-tuned over the past several years the price points have become even more attractive.

Overall, market prices for outsourced services are in many cases at the same or slightly lower levels than they were five to six years ago. This is a testament to current market conditions, considering that the overall quality and performance from the market leaders has improved.

POLITICAL CLIMATE

Economic struggles have had a significant impact on the political climate and attitudes toward outsourcing CCS, most notably when moving existing jobs to another country.

With unemployment levels hovering above 7 percent in North America, political sentiment is becoming increasingly hostile to the concept of offshoring. Moreover, customer satisfaction surveys reveal significant service quality, problem resolution and language comprehension issues with offshoring.

In response to these trends, many businesses have adjusted their strategies to emphasize nearshoring and onshoring models. The one exception is within companies or industries facing extreme pressure to reduce costs.

Call segmentation models – whereby high value and premium customers are routed to onshore agents, while low-value customers and off-hour calls are handled offshore – are becoming more prevalent. Customer satisfaction surveys within the same organizations continue to show a preference for onshore support models relative to their offshore counterparts. That said, in top-performing organizations the disparity in customer satisfaction between the onshore and offshore models is minimized, while the gap is much wider in poorly managed operations.

THIRD-GENERATION INDUSTRY LEADERS

Firms in the financial services, telecommunications, cable and technology sectors are the biggest and most established buyers of contact center services. Now in their third or fourth generation of CCS outsourcing, they have a well-defined value proposition for outsourcing and established best practices.

The success of these industry sectors reflects their ability to effectively leverage scale and technology through third-party providers. The Tier-1 service providers are constantly optimizing their operating processes and the latest technology advancements to drive productivity, efficiency and performance across millions of contacts and thousands of agents.

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The @Home model of CCS has grown significantly.

The recession and slow recovery of recent years has meant that the best service providers have been intently focused on retaining their largest existing clients and competing for new ones, when their existing contracts come up for bid.

THE @HOME MODEL

In recent years, @Home model of CCS has grown significantly, due to a variety of factors. These include:

A qualified pool of available workers: The economic downturn in the United States and high unemployment rates, coupled with the attractiveness of flexible work schedules, have provided a qualified, motivated pool of available agents.

New technology and tools: Home-based agents are increasingly able to securely access a Fortune 1000 firm's customer information. In addition to enabling information, applications and phones to be locked down, online screening, recruiting, training and oversight/supervision tools have evolved to the point where they are more effective than traditional models.

Attractive price points without going offshore: The @Home model can address the underlying CCS priority — cost reduction. With lower overhead costs and a more productive staffing model, market leaders can deliver @Home services for between \$22 and \$24/payroll hour – a 20 percent savings over the traditional outsourced model and typically a 25 percent to 35 percent improvement over a client's fully loaded internal operating cost. In many client organizations, that level of savings makes the @Home solution preferable to taking customers offshore (where the savings might be 40 percent to 50 percent), where the political reactions are much more negative.

Improved customer satisfaction and minimal attrition: The @Home model addresses two long-standing issues that have plagued the U.S. market for years – poor customer satisfaction scores and unacceptable rates of attrition. @Home agents tend to be better educated, more mature (8-10 years older) and more stable. The benefits of flexible scheduling, job security and not commuting boost job satisfaction rates and significantly reduce attrition. Coupled with improved screening and training tools, these factors contribute to better service and higher customer satisfaction scores.

Highly optimized and efficient scheduling: The @Home model can optimize efficiency and productivity by layering agents to match call arrival patterns and/or unexpected surges and lulls in volume. By requiring the physical presence of agents, brick and mortar centers lack this inherent scheduling flexibility of the @Home services delivery model.

In response to these trends, several firms specializing in the @Home model have emerged, while all major CCS providers have expanded their portfolios so that @Home agents now comprise 10 percent to 20 percent of the agent population. Internal delivery models have similarly increased their agent pools to include a larger percentage of @Home agents.

BEST PRACTICES MODELS



Outsourcing at least part of the CCS function is today a common practice for many Fortune 1000 firms.

Notwithstanding the relative doldrums of the CCS outsourcing market in recent years, supplier delivery models have evolved so that top-performing firms demonstrate clearly established best practices and the ability to leverage scale, technology, software tools and process discipline.

As a result, outsourcing at least part of the CCS function is today a common practice for many Fortune 1000 firms, and services to low-value segments of the customer service portfolio are typically outsourced to gain cost efficiencies.

As service providers modernize their service delivery models (global networks, CCS infrastructure, platform and tools) they are increasingly able to leverage their capabilities across multiple clients, as well as shift the burden of investing in new CCS infrastructure from clients. Today's provider workflow tools are able to integrate multiple inbound work queues from different channels (phone, email, chat, web, social media), prioritize them and present them to Customer Service Representatives (CSRs) for processing and handling.

Technology updates today are typically provided by service providers as part of a standard service, rather than an episodic event. Cloud "Plug-In Contact Center Infrastructure" or "Rent my Contact Center" infrastructure options have been available for several years now, further increasing clients' ability to use a global network to flexibly route, re-route and disposition contacts at any point.

Finally, the call segmentation strategy is being further refined into hybrid models whereby the customer-facing portion of the call is onshore or internal agents, while resolution tasks are handled by offshore resources.

SUPPLIER MARKET REMAINS HIGHLY FRAGMENTED

The CCS outsourcing market today remains highly fragmented, with over 350 firms providing services. These firms vary significantly in size, capabilities, global footprint, market strategy, technology, process and vertical industry knowledge.

Market share is similarly fragmented, with the top ten providers holding less than 25 percent of market share. The business is characterized by the conflicting dynamics of consolidation on the one hand, and the emergence of new, smaller entrants positioning themselves to provide "Top Ten" attention to smaller client organizations. Finally, the growing popularity of the @Home model is driving the development of an industry sub-sector specializing in that approach.

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Selecting a service provider that best fits business requirements can present a challenge.

CONSIDERATIONS

In today's fluid environment, selecting a service provider that best fits business requirements can present a challenge. Clients need to address a number of questions to determine the role of outsourcing in their customer service portfolio. These include:

1. Are our customer support costs competitive? Compared to what?
2. Are the current support costs sustainable over the long term?
3. Do we really represent "best practices" in customer support and service? Or can someone else do this better?
4. Is our service delivery model evolving with the technology options our customers have access to?
5. Are we leveraging the latest technology to bring fast and efficient service options to our customers?
6. Are we developing and refining self-service options that a segment of our customers continue to use and appreciate?
7. Do our customers have a "common experience" regardless of the channel or location from which they contact us?
8. What segment of our customer service portfolio would be a good fit for outsourcing?

ABOUT THE AUTHOR

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MIKE MCMENAMIN

Director

Mike helps companies develop sourcing strategies and then implement them to address their evolving and rapidly changing business requirements. This often means charting the best course to modernize and upgrade their IT services global delivery models. As a Senior Director, with more than 25 years of industry experience, Mike has worked with several of IGS's largest clients. His work has included unwinding and restructuring a global ITO agreement for a Life Sciences firm and developing an IT sourcing strategy for a Healthcare company. He has been instrumental in the development of intellectual property that assesses client operating environments and is active on practice development teams supporting Service Desks, End User Computing (EUC), Service Integration and Management (SIAM) and Contact Center Services (CCS).



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