



# The Pros and Cons of Outsourcing Customer Service

# Guide to Outsourcing Customer Service:

## Your Call is Important to Us. Please Hold.

Customer service is the linchpin of success for many organizations. With the proliferation of blogs and online review sites, one bad experience is quickly reported to thousands of potential customers.

But customer service—delivered online or via phone—is a costly endeavor and getting more expensive. Labor and energy costs are rising and advances in technology mean customers expect more service options, including online FAQ content as well as phone, email and live chat support.

That means today, more than ever, companies are looking for efficient ways to reduce customer service costs without losing quality. For many, the solution is to consider outsourcing all or a portion of their customer call activities.

When done right, delegating customer service can help a company streamline operations, be more responsive and gain a deeper understanding of their constituents.

Done wrong, these arrangements can frustrate customers and negate any costs savings with lost business and negative brand impressions.

So what's a company to do? The answer: Homework.

There are pros and cons to both sides of the customer service management coin and the right answer is different for every company. Before any decision is made, a thorough investigation of outsourcing's pitfalls and opportunities should be conducted, goals established, measurements identified and processes pinpointed.

Hopefully, this paper will get you started thinking about these issues.



## A failure to communicate

The decision to outsource, clearly, is not one that should be made lightly. Several of the nation's best known companies, including Dell™, Capital One, and JPMorgan Chase, walked away from outsourcing relationships, realizing that for them the disadvantages far outweighed the cost benefits.<sup>1</sup>

Likewise, outsourcing should not be viewed as a turnkey solution to a company's customer service needs. In order to maintain quality and efficiency, any outsourcing program will require ongoing management from your own leadership.

Research firm Gartner® specializes in customer service best practices. A few years ago, the company arrived at some alarming call center statistics: 80 percent of customer service outsourcing projects that are designed to cut costs will fail.

The problems, according to Gartner analysts, were manifold, including incomplete processes, ill-planned compensation structures and lack of management.

The key, perhaps, is in the stated goal. Those outsourcing projects aimed at cost cutting are the ones at high risk for failure. The question then becomes, are you outsourcing to save money or to provide a better customer service experience? Companies that are outsourcing just to save money often under-invest in doing it right.

As reported in the MIT Sloan Management Review, outsourcing has led to measurable decreases in customer satisfaction for a number of North American businesses. The study was published by Dr. Jonathan Whitaker and two other U.S. professors who examined the outsourcing activities of 150 businesses from 1998 to 2006.

Companies that engaged in outsourcing saw a measurable decline in customer satisfaction scores. Notably, those declines were the same regardless of whether they chose domestic outsourcing or foreign offshoring.

Even more alarming was the finding that those customer service scores tended to move in the same direction as company share prices. The researchers found that outsourcing customer service was associated with approximately 1 to 5% declines in a company's market capitalization, depending on the industry.<sup>2</sup>



The research should give any company pause, but that doesn't mean outsourcing is all bad, either.

<sup>1</sup> Jeffrey Pfeffer. (2006, March 1.) *The hidden cost of outsourcing*. Business 2.0. Retrieved December 29, 2008, from [money.cnn.com](http://money.cnn.com).

<sup>2</sup> Jonathan Whitaker, M.S. Krishnan, Claes Fornell. (2008, July 7.) *How offshore outsourcing affects customer satisfaction*. MIT Sloan Business Review. Retrieved December 29, 2008 from [sloanreview.mit.edu](http://sloanreview.mit.edu).

## A justifiable defense

Robert Zimmerman is a manufacturer's representative for [Avaya](#), one of the nation's top providers of call center technology. Zimmerman, who previously worked with two large outsourcing firms, says he is not surprised by the negative statistics.

"As with everything else, the decision to outsource is purely situational," he said.

Zimmerman indicated that outsourcing can make sense for certain companies and particular challenges. Companies that outsource overflow sales calls during the holidays, for example, can calculate fairly accurate cost-benefits. And, for small and medium businesses that can't afford their own infrastructure, outsourcing provides a way to look more professional and larger than you really are or handle "after-hours" calls as a means of improving customer satisfaction.

Likewise, both the Gartner analysts and Dr. Whitaker (as mentioned above) pointed to instances in which outsourcing could be effective.

Gartner argued that, when executed appropriately, outsourcing projects could indeed result in cost savings of 25 to 30%. Similarly, Whitaker and his colleagues proposed that a company could effectively increase customer service by reinvesting any savings back into other customer-benefit activities.

A common problem, they argued, is that while customers often saw a decline in service quality as a result of outsourcing, the companies failed to provide any new value/benefit in exchange. The idea is that customers will be more accepting of service changes when the company can demonstrate increased investment in other customer-facing areas, such as online support or proactive service reminders, for example.

For those companies whose primary motivation is increased customer service, not cost cutting, outsourcing provides multiple opportunities for service enhancement, including issue tracking and reporting, backup coverage during peak call times, 24/7 coverage availability and multilingual support.

By outsourcing customer service, companies have access to proven, world-class providers who already have the technology, training and manpower in place to provide efficient, effective service. The benefits can be significant.

Take issue tracking, for example. These tools can help isolate problem issues with a product or service. Likewise, as you identify the most common concerns and resolutions, you can use that information to update online help features and reduce incoming calls.



An outsourced call center can also be an affordable way of providing support to non-English speaking customers. While you may not be experiencing sufficient demand to hire a bilingual speaker yourself, one call center employee can service multiple clients, meaning you'll only pay for their specialized support when you need it.

Call centers offer a range of service options, such as fulltime outsourcing, co-sourcing (in which your in-house and outsourced agents share call volume) and emergency back-up support. Using call routing algorithms, your in-house staff can handle high-demand issues while routine inquiries are directed to outside support.

Because these call centers have sufficient staffing to flex with customer needs, they can provide increased support during a seasonal spike or marketing push. For some companies, that means additional sales instead of abandoned calls during times of peak demand.

And because technology demands make installing and updating a customer call center more expensive than ever, an outsourced arrangement allows you to redirect those funds to core business functions.

Of course, cost savings are still a reasonable goal for an outsourcing initiative. Thanks to economies of scale, outsourcing firms are often able to provide enhanced customer service support for less than you can in-house.

## Overcoming challenges

Overall, the key purpose of any outsourcing arrangement must be meeting customer needs. The following tips will help you balance efficiency with the need for quality performance:

1. **Authority.** Your front line staff needs the resources and authority to satisfy customer complaints. This is true for your face-to-face service personnel as well as call center agents.

It's frustrating for customers when the person charged with helping them doesn't have access to their purchasing information or the ability to make significant decisions, such as granting credit. That leads to lower satisfaction ratings and drives up costs with repeat calls that require higher-paid specialists to resolve an issue.

As Whitaker and his colleagues advise, companies should think carefully before



withholding customer histories and other account data from the call center. They write, "Companies need to weigh their concerns about information security and financial control against the damage that such arrangements can do to customer satisfaction."<sup>3</sup>

Remember, when a properly empowered generalist at the call center can resolve a customer call, you benefit with lower costs and increased customer loyalty.

**2. Compensation metrics.** A critical success factor for any call center agreement is a billing metric that rewards quality service.

As Gartner found, call center contracts too often included a compensation structure that rewarded call volume, allowing the outsourcing firm to maximize profits by increasing the number of calls processed. When a call center is rewarded for cutting calls short, customer service inevitably suffers.

To maintain high levels of customer satisfaction, your business objectives should be consistent with the call centers' compensation. Negotiate contract pricing that is relative to issue complexity, customer satisfaction and other quality measurements.

As Robert Zimmerman of Avaya explains, payments based on call volume or time-per-call metrics are best for incoming sales, when rapid data entry means more incoming orders come through.

Pay-for-quality contracts are not the norm, but Zimmerman says they are definitely possible to secure. No matter how you measure quality—by speed or satisfaction—Zimmerman says you should ask for a contract that includes bonuses for exceptional service levels and penalties for poor results.

**3. Process planning.** There's something to be said for working in shouting distance of your IT and sales departments. As problems become apparent, in-house agents can address them quickly and informally by shouting over cubicles or jogging down the hall.

That dynamic changes once you've outsourced your customer service. To compensate, organizations need to provide comprehensive process plans and escalation procedures.

To be successful, companies and outsourcers must collaborate to define proper



<sup>3</sup> Jonathan Whitaker, M.S. Krishnan, Claes Fornell. (2008, July 7.) How offshore outsourcing affects customer satisfaction. MIT Sloan Business Review. Retrieved December 29, 2008 from [sloanreview.mit.edu](http://sloanreview.mit.edu).

communication channels and responsibilities so that customer issues aren't accidentally abandoned and critical issues are addressed in a timely fashion.

- 4. Training.** Beware of the training fade. The call center agents you bring in-house for two week's intensive education go back and train other agents who subsequently train others. The value of your program is diluted, and customers don't get the same quality experience.

And because call center agents don't work within your company, they can't intuit various resolutions the way internal agents sometimes can.

Ultimately, ongoing training is even more critical when outsourcing than when using your own in-house staff. Problems occur when agents provide inconsistent answers, redirect calls unnecessarily or fail to escalate serious concerns. Some training hurdles can be overcome with thorough scripting and well documented procedures, but that leads us into challenge number five ...

- 5. Management commitment.** Do not underestimate the amount of upfront and ongoing management your outsourcing relationship will require. As indicated, process planning and ongoing training are critical to long-term success.

Just setting up basic protocols will require a significant time investment. Routing systems, for example, can balance the workload, directing sensitive calls to specialized staff. In order to limit customer frustration, calls need to be routed accurately. Likewise, call center staff will need scripts and yes/no protocols in order to provide consistent support. All this requires a lot of upfront planning, including issue brainstorming and simulations.



In addition to managing the external outsourcing relationship, consider how the change will impact internal departments and processes. How will sales, marketing and IT communicate with the outsourcing firm when information changes? How will data storage and promotional programs change?

Stan Lepeak has found a direct correlation between satisfaction in an outsourcing relationship and the amount of money spent on managing that relationship. As managing director of research for EquaTerra, Lepeak is an expert in improving business processes. Based on his surveys, Lepeak found that companies that spend at least 5% of their outsourcing expenditures on management are far more likely to be satisfied with the agreement. When a company spends \$1 million on outsourcing, it should spend \$50,000 in annual management. Expect to spend as much as 10% during the first few years, he says.<sup>4</sup>

<sup>4</sup> Linda L. Briggs. (No Date.) *Managing the Outsourcing Relationship*. [Sourcingmag.com](http://Sourcingmag.com). Retrieved Jan. 12, 2009.

In fact, when one of Zimmerman's previous companies was handling sales calls for Discover, he said a management team of six would call them every morning to go over the previous day's activity—looking for explanations of any anomalies such as unexpected call declines.

"If you aren't paying attention, the outsourcing company will get away with murder if they can—if they're less reputable. Unfortunately, smaller business can't afford the cream of the crop. They're going to take a risk and pay for it with staff hours," Zimmerman said.

"Where the small- to mid-size company is saving is that they're not having to pay for hardware and the IT support that goes with it, along with bodies, hiring and training," Zimmerman continued. "But they are going to have to pay for some highly qualified project managers that are going to really take ownership and oversee the call center."



Fortunately, an outsourcing firm will typically provide specialized service reporting software to bring some efficiency and transparency to the process. Still, Zimmerman cautions, be sure the company gives you access to all call recordings—not just a select few—so you can do your own monitoring.

- 6. Turnover and motivation.** Avoid call centers with high employee turnover rates. Obviously this number is difficult to verify, but employee satisfaction is important as it has a significant impact on customer satisfaction.

Turnover affects service quality and employee morale. Customer satisfaction decreases as more inexperienced agents handle your account. That leads to repeat calls, increased costs and lost business.

In 2005, Gartner found that outsourcing firms have higher staff turnover than in-house call centers.<sup>5</sup> To combat this problem, incorporate turnover penalties in your service contract and define training obligations for all new hires who will be working on your business.

To avoid contributing to the problem, try to evaluate whether the outsourcing firm is balancing your demand for performance with reasonable work expectations for their staff. Ask providers what they are doing to retain employees and keep them motivated.

<sup>5</sup> Press Release. (2005, March 4.) Gartner Says 80 percent of Customer Service Outsourcing Projects Aimed to Cut Costs are Destined to Fail. Retrieved December 29, 2008, from [gartner.com](http://gartner.com).

At the [Doctors Exchange](#) answering service in Covington, Louisiana, Brian Richardson knows how important it is to show his employees they are valued. A couple times each year, he pulls out a box of coffee mugs or other gifts and invites customer service representatives to grab one.

“We work 24 hours a day, 7 days a week, so coffee is very important around here,” Richardson said. “The mugs are a little sign of appreciation.”



The company, and 4imprint customer, provides messaging services, virtual receptionists and order entry for clients that include small businesses and Fortune 500 companies. Doctors Exchange, established in 1921, relies heavily on word-of-mouth referrals for growth, and Richardson knows those referrals start with happy customers.

So even though clients never see Doctors Exchange employees, the company buys coffee mugs, pens, t-shirts and polo shirts with the corporate logo on them for its 40 staffers. The products help the company maintain a professional work environment, celebrate achievements and milestones, and show appreciation.

“Employees are our company,” Richardson said. “They’re our business and we’ll do anything we can do to keep them here and show them they are appreciated.”

Find out if your call center offers a similar program and whether you can supplement it with your own rewards. Zimmerman says call centers should welcome this and will likely be willing to share incentive costs.

“Avis used to do that for us all the time,” he said, speaking of a client from one of his former employers. “Their manager would come into our call center once a month with DVD players and nice sweaters with the Avis logo and sit down with those agents that were the highest performers.”

You want these agents to be brand stewards for your organization, and it helps to spend some time and money fostering those relationships. The agents will appreciate your thoughtfulness—and those good feelings can go a long way toward retention and positive service delivery.

Also, recognize that many of the nation’s largest outsourcing firms have turned to home-based workers as a way of reducing turnover ([Read our Blue Paper<sup>SM</sup> on teleworking, for more information!](#)). Doctors Exchange has begun to migrate key employees to home-based offices. And, Jet Blue, which staffs its own customer

service lines, uses all home-based agents and has one of the lowest turnover rates in the nation.

Using modern internet phone systems and secure data controls, operators can answer consumer calls from the comfort of a home office. They can get immediate support from supervisors using instant messaging and other chat features, and managers can listen in to monitor call quality, just like in a traditional call center.

As a result, call center owners benefit from reduced overhead expenses and reduced turnover. Employees who can work from home on a flexible schedule tend to stay on the job longer and are also more productive. Plus, reports suggest these employees tend to be more motivated and more positive—possibly because they feel more comfortable in a home environment or because eliminating the commute cuts down on stress.

At any rate, positive attitudes are always a benefit. Incorporate rewards and relationship building in your ongoing management activities.



Finally, consider the potential pitfalls before outsourcing to foreign countries.

Zimmerman says foreign outsourcing is “losing its luster” and fast. “Number one, you’re not fooling anyone. People know it’s not in America,” he said. Number two is home-based agents have made domestic outsourcing rates highly competitive with foreign pricing. Overall, it’s not something Zimmerman recommends except for businesses that need round-the-clock coverage.

Cultural clashes occur whether or not the provider has a sufficient team of strong English speakers. Accents can be difficult to understand, certain English words have different meanings in different parts of the world and idioms don’t translate well.

Customers get frustrated when they can’t understand what’s being said or feel as though they themselves aren’t being understood. Again, this leads to repeat call scenarios and lower satisfaction scores.

When working with a foreign provider, follow up with customer satisfaction surveys that specifically address issues of language and cross-cultural understanding. Your outsourcing contract should provide disincentives and exit clauses if these success metrics are not met.

## Ensure your call center is an asset

Outsourcing customer service can be a risky proposition—unless, that is, you’re willing to invest in managing the process. To be successful, companies must provide ongoing

leadership to any outsourcing relationship. That includes supplying ample customer information, granting decision-making authority, continually updating business processes and measuring performance indicators.

Those companies with the best outcomes will be those focused on improving customer service, not just cutting costs. Think beyond expenses and consider other reasons for outsourcing such as gaining access to skills and coverage not available in-house, enhanced issue tracking or proactive service reminders.

Outsourcing also presents an opportunity to redirect funds to core business objectives and provide additional customer value. Maintaining the technology and IT staff to provide internal support is expensive, while outsourcing allows you to reallocate those funds.

When choosing a provider, ask what contact center platform they're using (Cisco, Genesys or Avaya, for example) and what version they're on. In a highly competitive industry like this one, outdated technology is a potential problem indicator. Finally, get references from a company with a business similar to yours, and establish incentives based on quality measures.

That said; consider outsourcing your customer service only if it's not a core value driver for your organization. Historically, Lands End has been one of the top ranked call centers in the country, but they don't outsource because that service is a key brand differentiator.

If you pride yourself on being an extremely flexible, customer-focused organization, outsourcing your service center is likely not a good value. Instead, look for back office functions you could effectively contract, and keep your own team on the phones. On the other hand, if outsourcing would provide valuable backup or enhance your service offerings, negotiate carefully and manage constantly.

