

DESTINATION **excellence** INC.

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**Optimizing Customer Care Operations**

**Maximizing Service Level and Occupancy**

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## INTRODUCTION

Budget time! In customer care operations, we know that budget time brings up the question we hear every year, "What can you do to improve service and decrease costs?" Given that 70-80% of our costs are in labor, this means improving productivity. However, the areas typically reviewed to improve productivity are the ones that can most damage the customer satisfaction: reduce agent training, decrease service levels.

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*Customer service is a key differentiator in today's marketplace. Industry leaders find ways to both cut costs and improve service without investing capital.*

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We all know that a blanket reduction of agent training will increase agent turnover and long-term costs. Agents who aren't adequately trained leave, increasing turnover. Increased turnover will also increase recruiting and hiring costs, training costs and increase the overall handling time as new agents work to become proficient in handling calls. What will cut costs in the first year will increase costs in every subsequent year – a recipe for disaster.

Decreasing service levels fares no better. Decreasing service levels by ten points (say from 80% of calls answered in 20 seconds to 70%) has limited value. Decreasing service levels will allow occupancy to climb six to eight points, providing overall savings of four to six percent. These savings however will be offset by increased customer dissatisfaction causing more calls, longer handling times and higher agent turnover. Experience tells us that decreasing service will only save two to three percent (optimistically) in the first year, with any savings being more than offset by declining market share.

So, how do we answer the annual budget question? Most customer care operations can actually improve efficiency and cut costs up to five percent just by focusing on improving their forecasting, staffing and management of agents.

It almost sounds too simple. We all focus on these elements every day. But the question is, "Are you getting the most out of your efforts?" The problem is that most customer care operations don't have good benchmark data to determine how they are doing in this area. This paper will examine the case studies of several customer care operations and let you answer the question for yourself.



## ESTABLISHING SERVICE LEVEL AND OCCUPANCY GOALS

As a customer care consulting company, Destination Excellence brings its clients two distinct advantages. First, the consultants with the company have a minimum of five years of hands on experience running call centers in a variety of capacities. Therefore, our consultants can relate to the challenges that face managers in customer care operations. Second, as consultants, we have reviewed a number of customer care operations, enabling us to validate our models and to collect comparative data. This expertise and information is then available to our clients.

### **Customer Satisfaction Measures Defined**

Customer care operations exist to provide customers with service. Simple enough, but many companies forget this very fact when determining how they operate. The objective of a customer care operation is to provide a defined level of service to customers cost effectively. But what service do customers expect?

*"To be effective, customer services should be viewed as a product line that must be packaged, priced, communicated, and delivered to customers." Hiroataka Takeuchi and John A. Quelch, "Quality is More than Making a Good Product" Harvard Business Review, July-August 1983*

In most cases, customers expect the same elements of service to exist within a customer care group. These elements are essentially the same in any customer service function, but the measures are specific to call centers. Customers expect to be answered promptly by a friendly and courteous representative who is knowledgeable and makes a valid recommendation with all customer questions and issues addressed in the first contact. This is service as is defined by the customer, and is represented in the graphic below.

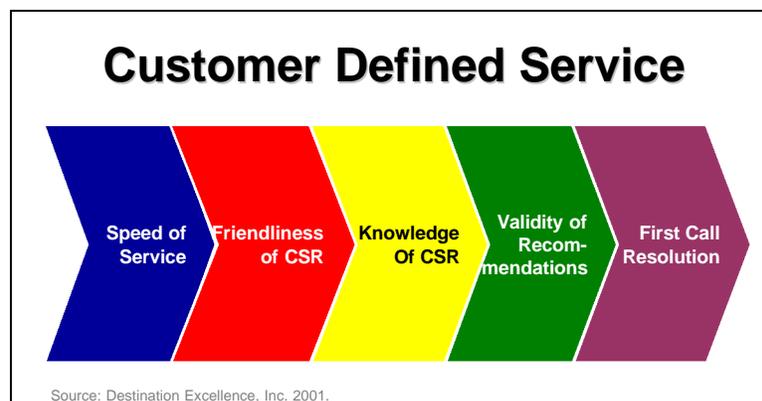


Figure 1

The last four elements of the customer service value chain are highly dependent on agent hiring, training, measurements and incentives. These elements are managed to reduce handling time and eliminate repeat calls. Success in these areas requires a successful and interactive approach between agents and management in the operation.

*Speed of service*, however, requires separate and distinct expertise. The success in answering calls quickly depends on the ability of customer care operations management to appropriately plan for resource availability. This is the one element that is largely in the control of management.



So, how do you measure customer satisfaction in the area of speed of service? The clients of Destination Excellence know we insist that all-important outcomes should be measured (if you can't measure it, you can't manage it) and that all measures should provide real time results or approximations of the actual outcome.

Given that real time customer satisfaction results are not available, customer care operations utilize proxies as customer satisfaction in regards to speed of answer. The three most popular measures used to approximate a customer's satisfaction with the speed of service are abandon rate, average speed of answer (ASA) and service level. While opinions differ as to which measures are most effective in predicting customer satisfaction for speed of answer, Destination Excellence performed a detailed analysis of results based on a survey of over 1,000 callers against each of these measures. Using statistical analysis, Destination Excellence computed the following results:

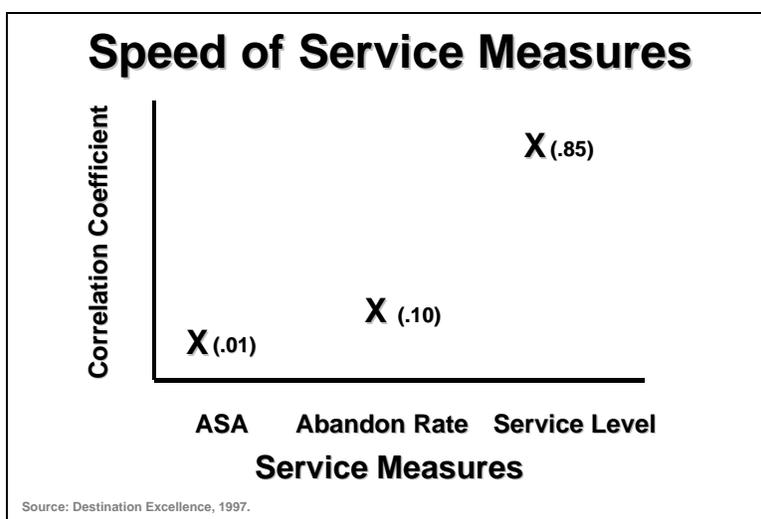


Figure 2

In short, service level provides the highest level of correlation with the actual satisfaction of a customer with how quickly their call was answered. Therefore, service level should be the primary measure for customer care operations for measuring the first step in the customer satisfaction value chain, speed of answer. Many companies also like to measure abandon rate to ensure that call centers are not blocking calls, or otherwise skewing results. Destination Excellence supports the use of abandon rate to validate procedures, but finds average speed of answer to be of little value in measurement systems.

With the known correlation between service level and customer satisfaction with speed of answer, it only takes a few steps to develop a curve illustrating the relationship between the two. Service level is always measured as a percentage of calls answered within a determined time frame. That time frame may vary between companies (some companies measure calls answered within 20 seconds, some within 10 seconds, some within 30 seconds and so on). Given that the most common time frame is 20 seconds, Destination Excellence developed the following chart for reference purposes.

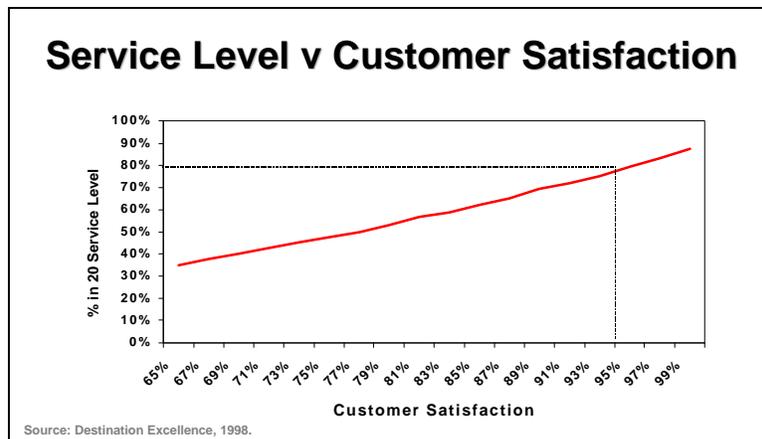


Figure 3

Most customer care operations have established a call answering goal of 80% of call answered in 20 seconds or less. Based on the findings from our survey and analysis, 95% of customers are satisfied with this speed of answer.

Clearly, each company must establish its own goals for customer satisfaction. The chart provided here gives companies information to make an intelligent choice in establishing their internal metrics. As will be illustrated in subsequent sections, the desire to increase occupancy and decrease costs must be measured against any impact on customer satisfaction.

### ***Size versus Occupancy***

Once customer satisfaction measures are set, the next normal question is, "What is the cost of maintaining this service level, or what occupancy do I need to run to maintain the desired service to my customers?" Or, "To reach my goal of customer satisfaction in answering calls, what occupancy supports that performance?" (For purposes of this document, occupancy will be defined as the time an agent is on a call or unavailable performing work related to a call as a percentage of the total time they are either working on a call or are available to take a call. Utilization may be another term used in some operations. It is important, however, that the definitions of occupancy be consistently used when performing comparative analysis, which is why Destination Excellence works with clients on obtaining a consistent calculation for analysis.)

The occupancy answer depends on several factors including: the desired service level, the hours of operation, the rate of call arrival, the volume of calls and the average handling time of calls. To help provide a quick answer to this question, Destination Excellence has developed the following graphic to provide managers with a guideline for the expected occupancy of their operation.

For the purpose of the diagram, an 80/20 service level has been assumed to be operating (typical in most industries, reflecting a 95% customer satisfaction with the speed of answer) in a 24-hour operation that is open 7 days per week with an average handling time of 180 seconds. The occupancy projections provided represent the occupancy from a "typical" call center operating at average efficiencies. Customized charts can be developed for other call centers operating at varying levels of efficiency as well as different operating hours and average handling times.

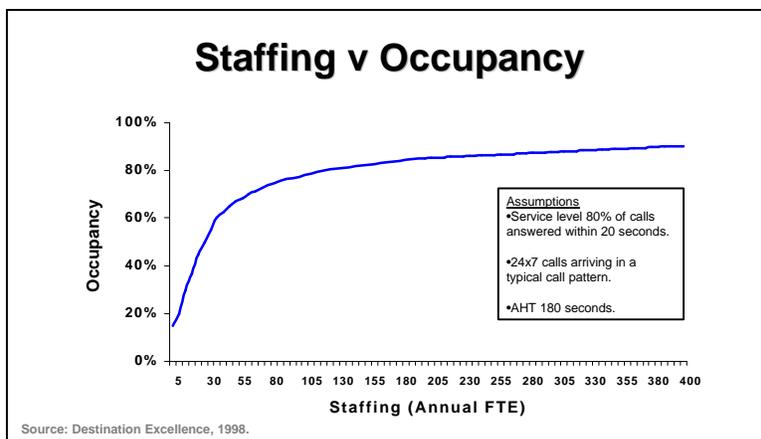


Figure 4

### The Service Level-Occupancy Trade-Off

The information provided up to this point is meant to provide sufficient information for the reader to understand why service level is used within a customer care group, and that the targeted occupancy for your operation is dependent upon the size of your operation. From this point forward, we will assume that you operate a large call center (more than 250 FTE) and that you use a 20 second threshold for measuring service level. The principles discussed in the remainder of this document hold true for other call centers, and Destination Excellence can develop customized charts for your particular group.

Every call center manager knows that there exists an inherent trade-off between service level and occupancy. If occupancy goes up, service level goes down. Likewise, if occupancy goes down, service level goes up. *This is mostly, but not always, true.*

It is true that a predictive relationship exists between service level and occupancy when all processes and procedures are held constant and consistently adhered to within the operation. This relationship is represented by a smooth curve. This curve can be calculated using Erlang tables, but must also be adjusted for other factors including randomized call arrival and agent adherence. The following curve represents the trade-off between service level and occupancy in the typical customer care operation.

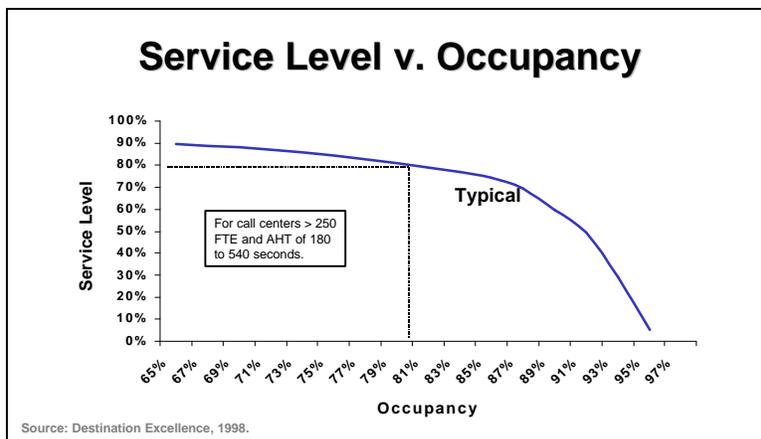


Figure 5



But why is this mostly, but not always true? The answer is that customer care operations can change their processes and procedures to *shift the curve out*. In other words, the operations can actually change the relationship between service level and occupancy to either increase service level at a given occupancy, increase occupancy at a given service level or simultaneously increase service level and occupancy.

Destination Excellence has worked with clients to shift their operational performance curve out to provide options to the company. Some companies have used this opportunity to gain competitive advantage in the market by increasing service levels at no additional cost. Other companies have used this as an opportunity to gain cost advantages by increasing occupancy. Still other companies increase both occupancy and service level to gain an advantage in both areas.

Destination Excellence has provided companies with the ability to develop customer care operations strategies to operate beyond the typical operation and operate at an optimal level of performance. The optimal performance curve is similar to the typical curve, but runs at a higher level across the board. The following chart provides the illustration of the difference between the typical and optimal performance curves.

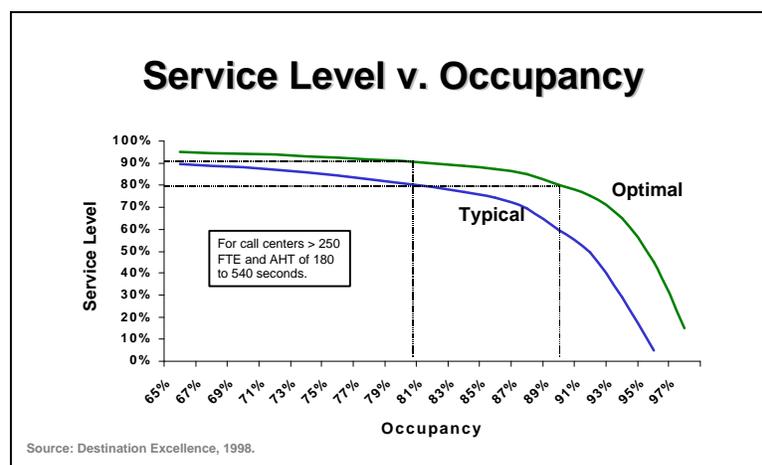


Figure 6

A typical company will operate at roughly an 80% service level and 80% occupancy. The optimal company will operate at an 80% service level and 89% occupancy, an 89% service level and 80% occupancy or an 86% service level and 86% occupancy. The targeted performance should be determined first by what the customer satisfaction goals are (which determines the service level) which can then be used to target the goal for occupancy.

For example, a company determines that it desired to have 98% of its callers satisfied with the speed in which their calls are answered (step 1). That company would then target 85% of calls to be answered in 20 seconds or less (step 2). If that company also determined that it would operate at optimal operational performance, it would use the 85% service level to determine its targeted occupancy of 87% (step 3). The following chart illustrates how a company would determine its goals as described here.

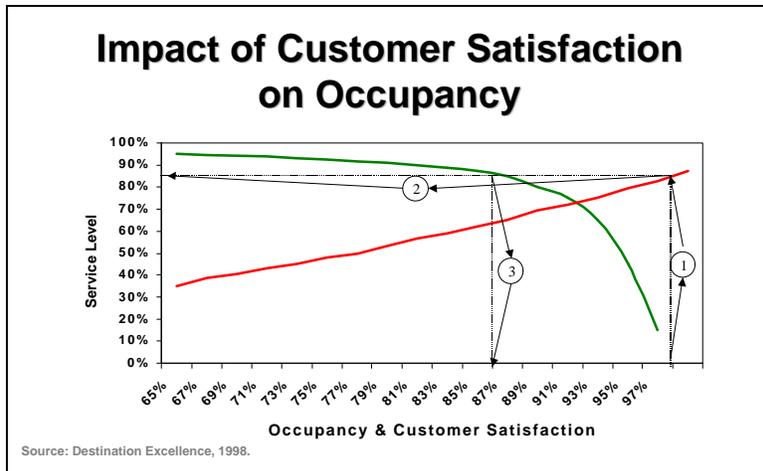


Figure 7

Each company must determine what is most important. Moving your company to optimal performance provides the greatest flexibility and selection for your operations.



## MOVING TO OPTIMAL PERFORMANCE

*If you could find a way to improve service and reduce costs without requiring capital investment and with a payback of less than 6 months, would you do it? Of course you would!*

Every company would like to improve its efficiency and customer satisfaction simultaneously. Destination Excellence helps companies do that *without additional capital investment*. In fact, the payback on such projects is generally within 6 months, and at times has been as low as 3 months. It doesn't take a calculator to determine the benefits of pursuing these projects.

To estimate the potential savings involved depends on the number of FTEs within a call center. Assuming a customer care operation is staffed with 250 agent FTEs, the annual operating cost of the operation is in the neighborhood of \$10 million. If the operation were running along the typical performance curve, moving to the optimal performance curve would produce approximately \$600,000 in annual savings. Destination Excellence encourages clients to estimate only ½ of the savings (to be conservative), so the annual estimate of cost savings is \$300,000. If the project cost \$100,000 over two months to implement, the payback would be 6 months (2 months for the project plus 4 months for the payback). In the first 12 months, \$150,000 in savings would be realized with \$300,000 in recurring savings for each year following. Clearly, these numbers change as the size of the center changes, and depend on the current efficiency of the operation. Regardless, the upside potential is significant. What manager would not implement a project like this to save money rather than cut training or lower service level?

Destination Excellence has found that, to achieve optimal performance, three interconnected processes must be optimized:

1. Forecasting
2. Staffing and Scheduling
3. Operational Adherence

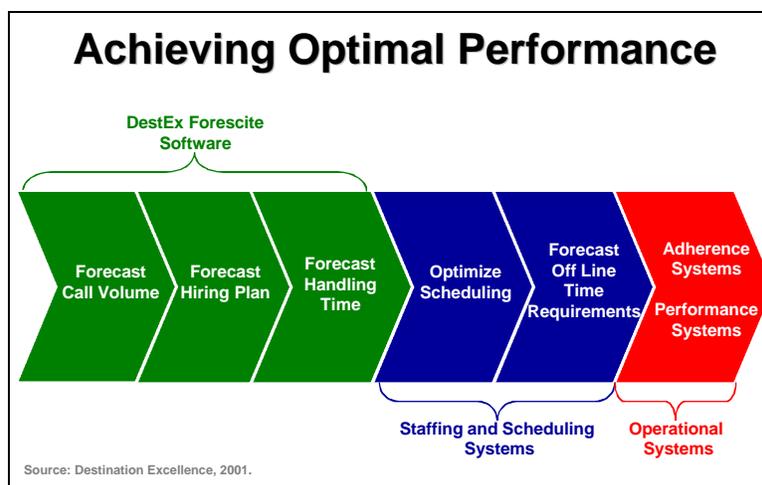


Figure 8



### Forecasting

The major complaint we hear from our clients today is that they cannot find a volume forecasting package on the market. While a forecasting tool is available with staffing and scheduling systems, they contain only basic volume forecasting systems. These forecasting programs work only when a customer care operation is in a stable and predictable environment. Very few call centers fall into this category.

In response to the demands of clients, Destination Excellence has developed a unique forecasting software package not available anywhere else in the market, **DestEx Forecite** (Destination Excellence Forecasting Science Technique). Forecite utilizes a proven set of mathematical processes to provide volume forecasts for every type of call, e-mail, Internet chat or other type of contact encountered at the call center. Forecite takes into account calls from a company's current customer base, new customers, churned customers, as well as responses from media (such as billing or advertising) volumes from retries and isolated events. The accuracy of monthly forecasts is high with actual volumes generally within 3% of forecasted volumes. Volume and handling time outputs from Forecite are used as inputs to staffing and scheduling systems currently available on the market.

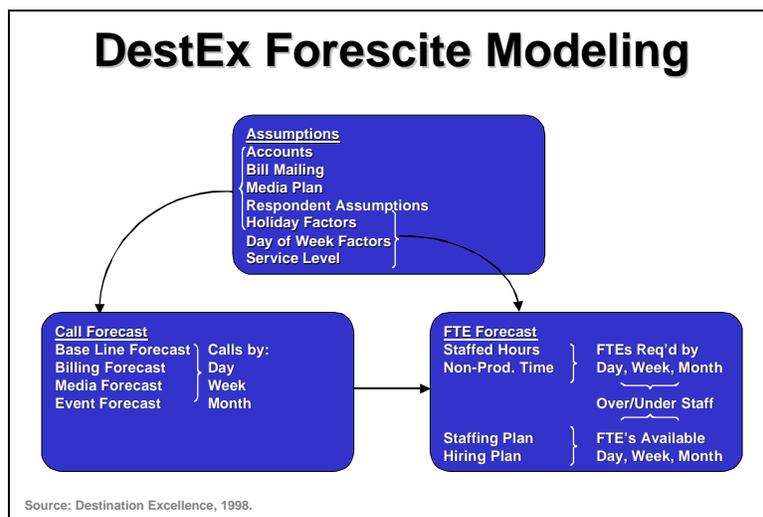


Figure 9

Forecite is an essential first step for operations to reach their peak performance. Most groups cannot accurately forecast volumes more than two months out causing great uncertainty in staffing. To address the required flexibility, operational groups both overstaff and utilize undertime to reduce costs or staff to their best estimate and use overtime to address shortfalls in service levels. This type of reactionary staffing causes companies to become less efficient in staffing thereby reducing their overall performance.

On the other hand, companies who can accurately forecast and thereby staff to achieve volumes can reduce the need for buffers in staffing. Reducing or eliminating buffers eliminates the inherent inefficiencies in operations resulting in more optimal performance.



## Staffing and Scheduling

Once an accurate volume forecast is achieved, the next step in the optimization process is to provide optimal staffing utilizing a scheduling system. There are a number of great scheduling systems available in the market. Any customer care group with 50 agents or more can achieve significant savings by utilizing one of these systems.

As good as these systems are, they are heavily dependent on user input. Users input parameters for scheduled days, start times, breaks, lunches, shift types and other data that help determine the overall efficiency of the operation. Users of these systems must take the time to understand to know what optimal performance is in order to determine if they have achieved the optimal schedule. In addition, other requirements for the call center must be taken into account. For example, aligning agent schedules to their supervisor's schedule will increase accountability, which will impact overall performance.

Scheduling systems must also be adjusted to account for the impact of new hires on handling time. All of the current scheduling systems allow the user to adjust the system determined handling time. However, the system does not take into account the impact of new hires on handling time without the users override. One advantage of the Forescite software is that it will recalculate the average handling time for the center taking into account the new hire impact on handling time. This information can be used for manual input into the scheduling system. Using the Forescite information provides one additional advantage to customer care operations in that it increases the accuracy of the forecast, increasing the overall performance of the group.

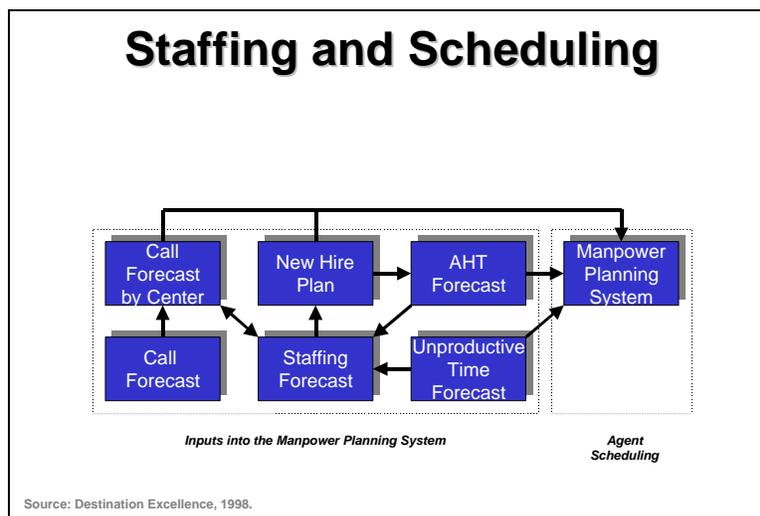


Figure 10

After an accurate call and handling time forecast is achieved, and agents are scheduled to answer calls, off-line activities must be scheduled. Team meetings, coaching sessions, interim training and other activities must be scheduled to provide a full view of staffing needs. These activities are scheduled in conjunction with volume staffing to fill in slower periods and make maximum utilization of personnel.

### Operational Adherence

Up to this point, the operation has developed an accurate volume forecast, handling time forecast, staffing forecast and off-line activity forecast. These combined forecasts should reflect a service level and occupancy forecast that is aligned with the optimal performance outlined in the previous section. If it is not, the operation should continue to work with the forecasts to attain that objective.

Having a plan in place to obtain peak performance is essential, as are the operational systems to ensure that the plan is implemented. There are two reasons that optimal performance is not achieved after the plan is put in place: known variations are not addressed on a real time basis and adherence to the plan is not attained.

The foundation of every customer care operation is people. People provide service. People provide results. People, however, are not robots and find it necessary to be flexible. The operational responsibility within the customer care operation is to ensure that the necessary operational flexibility is maintained without too much individual flexibility being infused. In other words, people must be kept on the plan unless the operation requires otherwise.

Individual adherence to the operational plan is necessary to achieve optimal operational performance. People must adhere to scheduled shifts, breaks, lunches and other off-line time activities unless instructed to do otherwise. The customer care operation is an environment where adherence to a centralized and update plan has tremendous benefits. A strong centralized group planning schedules and directing individuals is essential to this process.

Variations within a plan are a normal part of the customer care operation. A forecasted volume is rarely 100% accurate and will deviate  $\pm 10\%$  each half hour and  $\pm 3$  to 5% each day. The customer care operation must be prepared to adjust its plans real time to address overstaffing and understaffing situations by moving schedules, moving off-line time activities, utilizing under or overtime and other methods as necessary. Optimizing a month begins by optimizing a week. Optimizing a week begins with optimizing each day. Optimizing each day begins with optimizing each half hour (or less). Therefore, optimizing the operation begins with real time efforts.

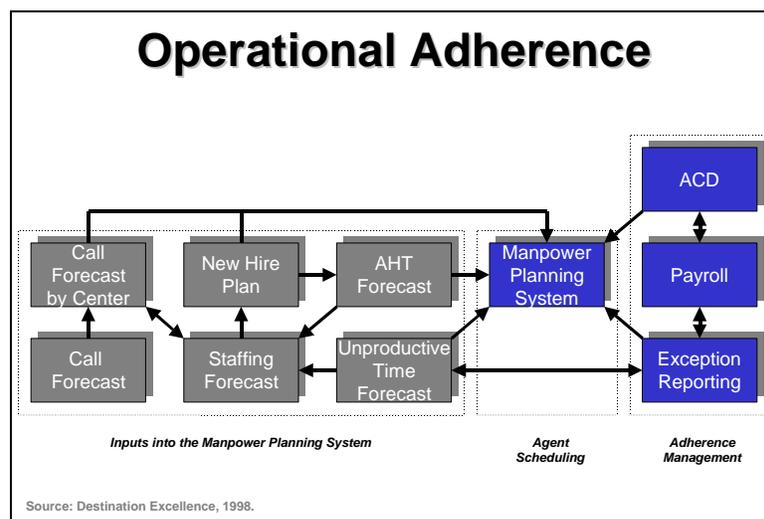


Figure 11



Every customer care group should contain a centralized group with the responsibility and authority to make, adjust and enforce a staffing plan. For some groups, this is included in the staffing and scheduling group. For others, it may be a separate part of operations. Still other groups empower supervisors to perform this function. Regardless of where this responsibility lies, each operation must have a central point of responsibility for this function. The best of plans can come to naught without the intelligent and insightful implementation and enforcement of that plan.

Finally, every individual who can impact overall operational performance should be measured on their contribution to overall performance. Agents can be measured on adherence to schedule and handling time performance. Supervisors should be measured on the same. The operations group should be measured on forecast accuracy and performance. Measurements are a key to attaining optimal performance and should be included in any plan to reach optimal levels.



## CASE STUDIES

Enough theory. On to the results of the practical application of what has been developed to date.

Destination Excellence works with a number of companies in a multitude of areas within their customer care operations. This area tends to be the most popular due to the impact on both cost and customer satisfaction. So, what do we do when a client contacts us to help them optimize their performance? The first thing we determine is their current performance curve. We do this by collecting monthly performance data on both occupancy and service level (we first validate the measures and definitions of both) and plotting that performance on the curve.

The chart below provides a sample of information Destination Excellence collected from a client. This client had four call centers that were providing service to similar customers. The call centers were not virtual and each had a unique set of responsibilities. All were large call centers that should have been able to operate at the optimal level. Due to unexpectedly high volumes in some months, we were able to plot a significant band of performance.

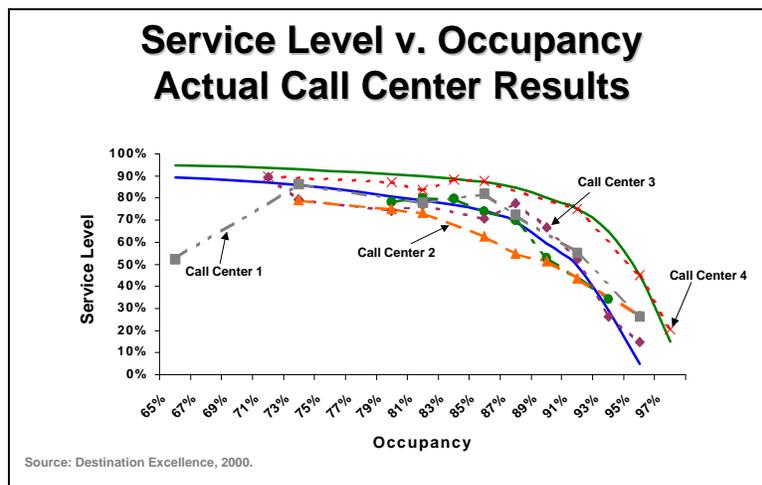


Figure 12

In plotting the performance curves, Destination Excellence found the following for each call center:

**Call Center 1:** This call center was generally good, but had issues when its volumes fell. It did not have an undertime procedure and was left with too many people in the call center when volumes dropped. This problem fed on itself causing a dramatic decrease in adherence when volumes were low. The end result was the worst of both worlds, low occupancy and low service levels. When volumes were more in line with what was expected, or slightly higher, the call center generally performed at average levels.

The solutions for this call center were significant. First, a forecasting system was put in place to provide more accurate predictions of volumes. Second, the staffing systems were reviewed and adjusted to increase the potential for reaching higher performance (note that a schedule will determine how you're your performance level will be). Third, a centralized tracking and adherence group was implemented to reduce

unproductive time. Finally, a measurement system was put in place to hold each individual accountable for their contribution to performance.

**Call Center 2:** The second call center followed the service level -occupancy trade-off, but performed below the industry average. This led us to believe that the group understood the general approach to performance management, but that their skills needed to be honed.

The solutions in this call center focused on developing tighter schedules and stricter adherence. This group suffered from the lack of knowledge as to what their performance should be. Because they saw consistency in their service level-occupancy trade-off, this group was unaware that their performance could improve. After sitting down with the group, we established new targets and developed tighter scheduling parameters to attain a plan for performance. We also trained their centralized control group to ensure adherence, which they were able to accomplish. Finally, we adjusted the existing measures to levels consistent with optimal performance providing a check for daily activities.

**Call Center 3:** The third call center operated slightly above the industry average, but did not achieve optimal performance. Here, the call center managers had a good understanding of how to manage performance, but like Call Center 2, had set their objectives too low. We worked with the group to establish higher performance targets and worked with their scheduling system to achieve a plan to reach those targets. We also adjusted measures within the call centers to be consistent with the performance targets established by the group.

**Call Center 4:** The last call center was already performing at near optimal levels. This group of managers was impressive in their understanding of optimal performance and how to attain it. This group's performance fell slightly as occupancy dropped taking a conservative stance on keeping agents available. Greater control during those times was required by the centralized staffing group to keep agents available despite the increase in time between calls. No other action was required.

Destination Excellence has achieved significant success with call centers, both in identifying the reasons for sub-optimal performance as well as in establishing the mechanisms necessary to achieve optimal performance. While the activities above have been summarized for the reader, the work required to achieve results is significant. In every project, Destination Excellence works with clients to establish a permanent base of understanding and solutions to bring permanent change for improved results going forward.



## DESTINATION EXCELLENCE - YOUR COMPETITIVE ADVANTAGE

Many companies today use outside professionals to augment internal resources. Destination Excellence has the advantage of bringing hands on knowledge and experience of customer care operations along with a history of success across industries. Your company will not spend valuable time and funds training us in what needs to be done – our experience has taught us. You will only need to spend a short amount of time with us to describe your operation, your procedures and your objectives. After that, we work proactively with you to achieve your desired results.

More than 75% of our revenues come from repeat clients. Generally, our clients hire us for one project and find our expertise so valuable, they hire us for additional projects. In addition to providing forecasting, staffing and performance services described in this document, Destination Excellence provides the following additional services (please see our web site for more detail):

- **IMPROVING PROFIT MARGINS.** There are two sides to the profit equation, revenues and costs. Destination Excellence can help you improve revenues through service and sales. We can also assist you in controlling costs through disciplined systems and processes, either for internal operations or outsource partnerships. Destination Excellence has developed strategic business modeling for companies in a number of vertical markets: wireless, utilities, travel, financial and e-commerce to name a few.
- **AUDITING AND BENCHMARKING YOUR OPERATIONS AND SERVICES.** Destination Excellence utilizes its proprietary 100-Point Audit tool to help clients benchmark their current operations and performance against the industry. With a database of over 30 audits across a number of industries, Destination Excellence works with clients to provide recommendations and information on the areas where they have attained world-class performance and which areas that require development. Feedback to clients is provided in a way that they can assess their relative performance against other call centers as well.
- **CREATING A CULTURE OF EXCELLENCE AND SUCCESS.** Companies increasingly understand that a culture of service begins with service to the people within the company. It has been shown that companies that create cultures of excellence with their people have higher customer satisfaction and profits. Destination Excellence helps companies to:
  - Define a culture using organizational principles and practices rather than processes and procedures.
  - Create an organizational dynamic using a concentric circle approach rather than the traditional hierarchical approach.
  - Develop a sense of community within an organization to reduce turnover and increase performance.
  - Envelop activities with communication streams to maximize the effect of each individual.
  - Instill a sense of continuity within each individual in the organization to optimize their tenure in the group.
  - Engage individuals in community activities to promote a strong corporate image.
  - Train for specific outcomes with measured goals and objectives to increase the impact of the investment in training.



- **HIRING THE RIGHT PEOPLE AND DEVELOPING THEM FOR SUCCESS.** Hiring the right person is a great beginning. The next step is to train them to achieve their best for themselves and the company in order to create an environment of excellence. Destination Excellence will help your company accomplish the following:
  - Identify the best tools to predict the success of people before you hire them.
  - Develop a comprehensive hiring program to maximize the potential success of everyone you hire.
  - Implement a new-hire training program to equip people to perform at their maximum potential.
  - Design ongoing training and communications systems to maintain the enthusiasm of your people throughout their career.
  
- **ASSESSING AND INSTALLING SYSTEMS AND TECHNOLOGY.** Destination Excellence has hands-on experience in call center systems. Telecommunications services, ACDs, Manpower Planning Systems, and CRM systems are included in the array of call center technology experience found at Destination Excellence. Destination Excellence provides a three-dimensional analysis of not only the cost of new technologies, but also the return on investment to the call center. Our services also include user specification development, contract negotiation, vendor management and post-installation quality checks.
  
- **SELECTING AND MANAGING OUTSOURCE PARTNERS.** Destination Excellence understands that not all businesses require, or desire, to maintain their own call centers. Successful businesses focus on their own core competencies. Strategic partnerships with excellent outsourcing centers provide a company with professional customer contact, while freeing up valuable internal resources. Destination Excellence has helped companies place outsourced call center and e-center business, as both a partner and intermediary. Utilizing a proprietary 100-point call center audit, Destination Excellence has successfully placed over \$10 million in call center business, and helped to create excellent, metric-driven long-term partnerships.
  
- **MEETING YOUR CUSTOMER CARE NEEDS.** The information provided here is just the tip of what Destination Excellence can do for your customer care group. Other client projects Destination Excellence has worked on include:
  - Turning around failing companies increasing their market value and long-term success.
  - Strategic planning for start-up and ongoing firms.
  - Industry opportunity and market analysis.
  - Financial planning and modeling.
  - Workshop development.
  - Executive education.

Contact Destination Excellence to see how we can help you.

**Contact Destination Excellence toll-free on 877-433-7839, or e-mail us at  
info@destex.com. You will be glad that you did.**

