DESTINATION excellence INC.

Gaining a Competitive Advantage

Outsourcing v Insourcing

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EXECUTIVE SUMMARY

In the 1990's, the call center outsourcing industry blossomed into a $10 billion juggernaut with a sustained yearly growth rate of 25%. From humble beginnings as a high-volume, low-quality dumping ground of low-value customer contacts, the outsource call center has become a critical part of nearly 85% of all Fortune 1000 customer contact solutions. It is estimated that by 2005, the outsource call center industry will reach $30 billion in revenues in the United States, with nearly 20% of all customer contacts being handled by an outsourcer.

But what does this mean to you and to your business? Why the recent boom to place your customer contacts with a different company? How do your customers feel about it? What's in it for you and what's in it for your customer?

This white paper focuses on the decision-making process involved in determining whether it is to your strategic advantage to outsource all or part of your customer contact center, or to manage your own business in-house. Key issues that will be discussed are:

- **Growth and Trends in the Outsourcing Market.** While the overall customer contact industry growth has reached maturity, the customer contact outsourcing will increasingly be an option selected by companies. Companies will seek outsourcers who can meet quality requirements and reduce costs. Near-shore and offshore outsourcing is increasingly becoming an option for companies and will play a significant role in the future. This section will review the trends in outsourcing and look into the future of the outsourcing market.

- **Determining if Outsourcing is a Viable Alternative for Your Company.** Companies within the same industry may take very different outsourcing strategies. Some may not utilize outsourcing at all, others may outsource all of their contact center work, others may utilize a mix of internal operations and outsourcing while still others may change their strategy over time. This section will review the key factors used by companies in determining their outsource strategy and provides a checklist to help you determine if outsourcing is right for you.

- **Selecting the Right Outsource Group.** An outsource relationship should be a partnership. Partnership requires that there be a strong alignment between the needs of your company and the capability of the outsource provider. This section reviews the process companies should use in selecting an outsource partner and how to balance the areas of quality, cost and strategic fit in the decision making process.

- **Leveraging Your Outsource Partnership.** It is not enough to engage an outsource partner, companies must learn to leverage the relationship to their greatest advantage. This section will review common ways in which a company can leverage their outsource partner's capabilities.

The approach outlined in this white paper provides proven methods for determining a company's operational strategy, outsource vendor selection and relationship management. Destination Excellence has guided numerous clients though this process achieving a high level of success.

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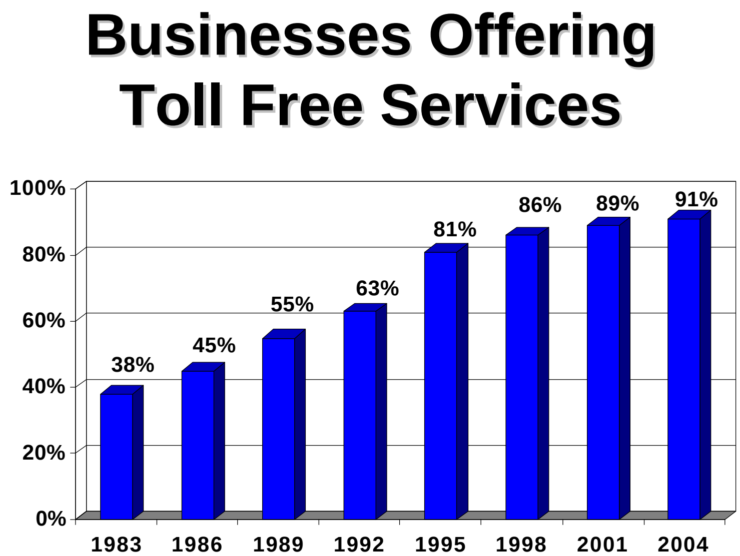
THE GROWTH OF THE OUTSOURCING MARKET

Customer Contact outsourcers have been in business as long as the industry itself. Most of the 1980s were spent in relative anonymity for the industry as a whole. It was not until the end of the decade that more than 50% of businesses offered toll-free service to their customers.

The mid-1990s saw rapid growth in the customer contact industry as a whole. This growth was driven by the increased use of toll-free services by business, with nearly 9 in 10 businesses offering toll-free service by the end of the decade.



Source: Telemarketing & Call Center Solutions™ Magazine

Much of the move to increased toll-free services was driven by the economics of contact centers and customer needs. Coming out of a difficult economic decade in the 1980s, businesses sought to reduce field services costs by replacing those services with customer contact groups. In addition, customers demanded the convenience of telephone service and support as they continued to place value on convenience, speed and time saving activities.

In the midst of the 1990s came the Internet revolution with the introduction of the first user-friendly interface, Mosaic. While companies attempted to harness the power of the Internet to reduce customer contact costs, the speed and technology of the Internet could not replicate the ubiquity, speed and efficiency of toll-free service. Rather than reducing contact volumes, the Internet supported increased volumes.

The customer contact outsource market gained significant visibility in the early 1990s. Originally a backwater market, several events converged to increase the visibility of this market.

First, the market had reached a size and scale that began to attract attention. In 1990, the outsource market reached $1 billion and was growing at a rate of 40% per year in the first half of that decade. Second, the industry began to consolidate as larger companies saw the opportunity to bring significant scale and geographical diversity into the market. Third, to fund the consolidation and expansion, many customer contact companies went public, allowing some of the first outside view into the economics of the business.

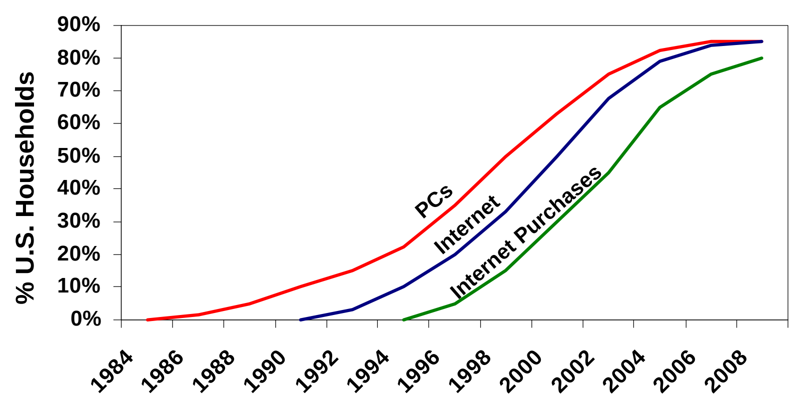
The early view of the business thrilled the financial analysts. Their enthusiasm was so great, that outsource contact center companies carried valuations (P:E ratios) in excess of Internet companies. Exhibiting growth rates of well over 50% (part through market growth, part through acquisition), analysts thought they had found a diamond in the rough.

The enthusiasm of the analysts was soon brought back to earth when it became clear that the growth of outsource companies would be limited to market growth in the long run. In addition, the key markets supported by outsourcers ran into their own issues, quenching the growth of the market for a short period of time. The P:E ratios of outsource companies are now at normal levels.

So, what is the future of the customer contact market and the outsource sub-segment? Here are some general findings:

- The customer contact market has completed its growth phase and has now reached maturity. The rapid deployment of customer contact centers by companies has slowed, having reached the saturation point.
- The customer contact market will begin to decline in 2005 due to electronic messaging alternatives (via the Internet and through other means). The mix of transactions in contact centers will become more electronic as call volumes flatten and electronic communications increase. Demographics, technology and an improved wireless infrastructure will make electronic communications more convenient, easier and faster causing customers to dramatically increase their use of electronic messaging. The lower cost of handling electronic messages will cause the overall decline in revenues of the contact center market.

PC and Internet Market Penetration

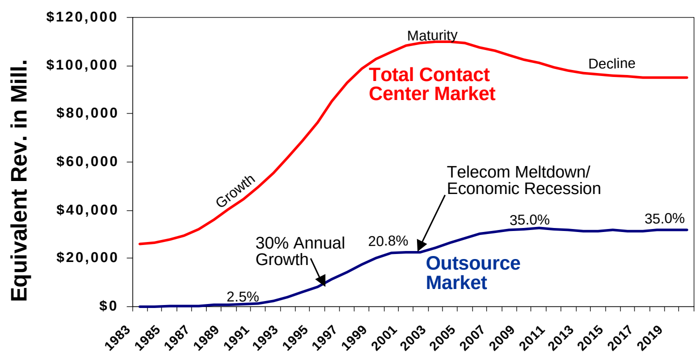


Source: 1999 Destination Excellence estimates

- Customer will perform a significant amount of transactions beginning around the turn of the decade, with almost 50% of transactions done through electronic messaging by 2020. This will be driven by the speed of access at the home as well as the user-friendly technology on web sites. These advances will reduce the staffing in real-time customer support.

- As the outsource market in the U.S. reaches maturity, offshore companies will provide a valid, and less costly, alternative to North American-based sites. Spanish language calls (representing about 5% of the market) will generally be placed in Spanish-speaking countries. English language calls will be placed increasingly offshore into countries where English as a second language is readily available, the quality of operations is similar to that in the U.S. and the cost is as much as 50% lower than U.S. based centers.
- Customer contact operations will become more of a commodity in that an outsource group will be able to replicate the success of internal groups in terms of cost and service. Like payroll processing, contact operations will be considered for outsourcing to reduce costs or resource requirements within a company. The penetration of outsourcing will increase to over one-third of the total market around 2010.

Customer Contact Market



Source: 2003 Destination Excellence estimates

The challenge for companies utilizing customer contact groups is to look ahead and develop a strategy based on their specific requirements. The questions companies must ask are:

1. *Is outsourcing a viable option for our company?*
2. *If I decide to outsource, how do I select the right outsource strategy and partner?*
3. *How do I continue to leverage the strategic value of my customer contacts with an outsource partner?*

Each of these questions is reviewed in the following sections.

IS OUTSOURCING RIGHT FOR MY COMPANY?

Companies in the same industry often have very different approaches to managing their customer contact groups. Some companies may outsource everything, while others maintain internal operations without any outsourcing. Still other companies may utilize a mix of internal and outsource operations either by separating contact types or fully integrating operations.

The outsourcing approach taken by a company is largely independent of the industry and much more dependent on the vision, culture and views within the company. Some companies view customer contacts as an integral part of their strategy and require the operations to remain internally operated and controlled. Other companies see the customer contact function as outside their core competency and therefore outsource the work. Still other companies view the function as critical by not the operating of the function, delegating the operation to outsourcers but tightly managing the process.

An outsource strategy, therefore, is not “one size fits all.” Each company must review a number of strategic, quality and cost factors to determine the best customer contact operational strategy for their organization.

Based on experience in assisting a number of groups determine their outsource strategy, Destination Excellence has identified some key factors in the outsource decision making process. While the importance of each factor will vary from company to company, and some companies will have additional factors, the ones outlined here normally cover over 90% of the key issues. A review of the eight key factors follows.

Culture

Every organization carries with it a unique culture. Like other groups and families, companies carry with them preferences for how they do things. Culture is the primary driver of decisions to outsource or perform functions internally. Some companies carry a strong bias to performing all functions internally, other companies prefer to outsource as many functions as possible, and still other companies take it on a case-by-case basis.

To determine what your company’s cultural bias, review the current functions that are outsourced today. How many functions are outsourced today (a few insignificant outsource agreements may mean that the company is not ready to outsource customer contacts, whereas multiple outsourcing agreements indicates a higher probability of success)? How was it decided to outsource these functions (a clearly outlined logical process points to a positive process for the possibility of outsourcing)? How effectively is the outsource partnership managed (if outsource partnerships carry clear lines of responsibility, authority, visibility and adequate resources, outsourcing is an option to be considered)? Are the general conversations around the functions outsourced today positive or negative (consistently negative conversations about all outsourced functions point to a bias against outsourcing)? The answer to these questions will give an indication as to the viability of outsourcing customer contact services.

Even if the answers to these questions are not entirely favorable, it does not mean that the issue of outsourcing should not be considered. If a company is undergoing change, needs to reallocate internal resources to more important issues or has other outside forces pushing on the corporation, outsourcing may still be a viable option. However, every decision maker and influencer must remember that culture is the invisible current in the stream of the corporation that influences the direction and success of decisions.

Strategic Necessity

Whereas culture is internally driven, strategic necessity is externally driven. Culture may pull in one direction, but strategic necessity pulls in a different direction. In the 1980s, many companies had a culture of performing all functions internally and on U.S. soil. Due to increased international competition U.S. companies were forced to rethink this strategy or face extinction. Very few issues motivate change greater than the possibility of extinction.

Strategic necessity is a reaction to outside forces. When a company must react strategically, the remaining issues (quality, annual cost, capital cost, human resource availability and risk) must be reviewed in careful detail to ensure the proper decision is made. Strategic necessity in the first two decades of the 2000s will be driven primarily by cost. In the 1990s, companies began to recognize that outsource companies were competitive on key non-financial measures (e.g., overall customer service) while also matching strategic capabilities (e.g., partnering with internal groups and providing market intelligence). Consequently, the strategic necessity of maintaining internal call center operations began to decline.

Strategic necessity will be measured and managed differently by each company. The litmus test used, however, is the same. The key question is, what strategic value do internal operations provide and at what cost.

Quality

In almost every industry, the quality of the customer contact center is more important than its cost. Quality here will refer to the quality of the overall customer experience.

Key concepts such as lifetime value of a customer, the cost to attract versus retain a customer and support of brand image make quality one of the key factors in determining an outsource strategy. The revenue and margin lost by poor quality can easily outweigh the cost savings of outsourcing.

Annual Cost

The term annual cost is purposely used here. Companies generally have a good handle on what internal operating costs are for outsource groups. However, the analysis of determining true outsource costs must not be limited to the operating costs of the contract (e.g., staffing, project management, administration). These costs must also include incidental costs (e.g., programming, licenses, special requests) that may be charged by the outsourcer as well as costs borne by the company in managing the contract. These latter costs include the costs of personnel (e.g., contract manager, QA personnel) and travel.

Capital Cost

Internal customer contact centers often maintain a continuous battle to update technology to implement new services expected by customers. Often, internal groups receive such investment well after the customer need is identified and customer complaints have been generated.

Capital allocation to the contact center is difficult because it often competes against core business units. These business units invest in capital to create new products or services that have a projected return. The contact center operations, in contrast, often have to implement technology to avoid a decline in customer contact quality that is difficult to measure.

Outsource companies have the advantage in that they must constantly maintain a competitive infrastructure for their clients. The cost of the infrastructure is built into pricing eliminating the requirement of client companies to spend significant capital to utilize this technology. Companies may look to outsourcers as a way to maintain a competitive technology base without maintaining an expensive infrastructure.

Human Resource Availability

Companies that do not have contact centers as a key part of their business often find it is difficult to locate and retain qualified contact center professionals, particularly at the middle and executive levels. The reasons for this are simple. First, the discipline and expertise required for a contact center are not normally found within the business. This often requires companies to recruit candidates from outside the company. Second, the career path of contact center professionals may be limited if a path to alternate careers within the company are not available. This causes turnover within contact center positions.

Some companies may find that the constant battle to maintain strong and knowledgeable leadership within the contact center distracts them from the core business. They may choose outsourcing as a solution to this issue.

Risk

Risk is an inherent component of outsourcing. A company and its outsourcer may have similar program goals, but the ultimate ways in which they achieve revenue and profitability are different. Most outsource companies reduce risk by tying their success to maintaining long-term relationships with clients, causing a closer alignment of objectives. While this reduces, it does not eliminate risk.

Every company has a risk threshold that they are willing to tolerate. For some companies, regardless of how small the risk, they will not outsource their contact operations. Other companies are comfortable establish systems to manage risk, viewing the need to control the output but not the operations themselves.

Summary

Every company will weigh the outsourcing decision differently. This section outlines the key elements most companies consider in determining if outsourcing is right for them. The following table provides a format for companies to use in assessing the viability of outsourcing for customer contact operations.

Factor	**Relative Importance (L-M-H)**	**Pros**	**Cons**	**Net**
Culture				
Strategic Necessity				
Quality				
Annual Cost				
Capital Cost				
Human Resource Availability				
Risk				

The following is an example of how companies can use this table:
1. Verify that the key issues have been included in the decision table. Add or delete issues as necessary.
2. Apply a level of importance to each area. A simple low, medium or high level can be assigned, or a numeric score can be assigned.
3. List the pros and cons of outsourcing (a similar table can be developed to maintain internal operations). This is best accomplished in a brainstorming session representing multiple disciplines. An overall score can be provided to the pros and cons of each issue if desired.
4. The pros and cons should be netted out. This can be done qualitatively by selecting the key pros and cons and listing them here. Alternatively, if a numeric score has been assigned to the pros and cons, the con score can be subtracted from the pro score.
5. If each level of importance was assigned a numeric as well as the net, the scores should be multiplied. If an insource table was developed, the two scores would be compared. If scoring was not assigned, a bubble chart can be developed giving an overall qualitative assessment to the outsource decision.

Even with quantitative application to the assessment, most companies will rely on their instincts in making the outsource decision. The quantitative and qualitative tools provided here are not meant to replace business instinct, but provide businesses with the information necessary to clearly understand what factors will influence their outsource decision and by how much.

The following sections provide companies with an approach to selecting an outsource vendor when they do decided to outsource.

SELECTING THE RIGHT OUTSOURCE PARTNER

Outsourcing is a partnership. Like any partnership, the objective of the partnership is to add value to both parties. Partnerships that accomplish this endure over long periods of time. The ramifications of selecting the wrong partner can be painful.

Fortunately, the process of selecting a positive partnership is well known. Destination Excellence has assisted a number of companies in selecting partnerships successfully. This process is detailed further in this section. Adherence to the process outlined here significantly increases the quality and output of the outsource process.

Develop Your Requirements

First and foremost, a company must detail its expectations. In companies who have performed customer contact work internally for a long period of time, this process may require significant documentation. (Internal operations tend to be less documented, as procedures and training are often the intellectual capital of individuals within the center.) This documentation is critical, however, to properly assess the capabilities of the companies considered.

Documentation of a program to be outsourced should include:

- An overview of the company and how the program supports overall company goals.
- The mission and vision of the program along with specific and measurable objectives/expectations (including turn-around times and service levels).
- Volume projections by type (e.g., calls, e-mail, chat), month (weekly if sufficiently cyclical), day (day of week distribution), and holiday. If media drives some portion of volume, then outline the expected media schedule.
- Average talk times and after call work times by contact type.
- Hours of operation, including holidays and other events. Include expectations on downtime and disaster recovery.
- Hiring profiles, initial training requirements, how training will be developed and delivered.
- Non-productive time requirements for training, coaching, monitoring, ongoing training and other activities desired by the company.
- Estimated staffing levels.
- Schematic of the workflow.
- Schematic of the expected systems set up and system interfaces back to the company.
- Other requirements, as appropriate.

This information will be crucial to the development of an RFP. If information is not available at this time, it will be required in response to the RFP.

The RFP Process

The RFP process begins with the selection of vendors to include in the distribution of the RFP. This can be accomplished in one of two ways. First, a company can send an RFI with an overview of the project to a broad array of vendors and use the responses to the RFI to narrow the field. Alternatively, the company may survey the industry and pre-select a number of vendors who have a solid reputation of performing well against similar programs. Only companies with a high probability of success in the program should be included in the RFP.

The RFP itself should reflect all of the information that a vendor will need to submit a complete and qualified bid. While there is no single format that is best for every RFP, the following provides an outline that has worked well in a number of submissions:

- Secrecy Agreement. The signed Secrecy Agreement should be included with the RFP for the vendor.
- Instructions to Bidders. Standard legal language should be included to make clear the time frames, submission criteria and release the company from any legal obligations in distributing the RFP.
- Bid Selection Criteria. This outlines how the vendor will be selected. The criteria should be clear enough for vendors to understand what the company considers most important, yet remain flexible to provide the best overall selection process.
- Timeline. The timeline for submission, review, selection, contract negotiation and implementation should be outlined in detail.
- Program Overview and Requirements. The requirements developed (see previous sub-section) are detailed in this section.
- Sample Contract. A standard company contract should be included so that vendors may judge what contractual criteria may impact their pricing and performance. Vendors should list any objections to the contract in the Additions, Variances and Exceptions section.
- Bidder Response. A standard response sheet with pricing (using a single pricing format will increase understanding), performance, support services, systems and other information should be filled out be each vendor. A clear and consistent bid sheet will allow for objective comparisons between vendors. Companies may opt to allow an additional response to be provided by the vendor in a freestyle format.
- Additions, Variances and Exceptions. Providing a specific section for deviations from what was requested allows companies to ensure they are clear on what has been requested will be adhered to.
- References. Require references from similar applications from current and discontinued clients. Also provide some investigation outside of the references provided to determine what issues companies may have with the vendor.

After the RFP is developed and the vendors who will receive the RFP selected, each vendor should be contacted to obtain their level of interest for inclusion. Any vendor who wishes to be included in the RFP must sign a Secrecy Agreement protecting the information that is being provided to them. Upon receiving a signed Secrecy Agreement, the vendor will receive a copy of the RFP.

After all the responses have been received, the vendor assessment can begin.

Vendor Assessment

Upon receipt of all vendor RFP responses, the company must determine if some vendors should be eliminated from consideration. Causes for elimination may include pricing, quality of response, service capabilities or unacceptable exceptions. Any vendor eliminated should be notified immediately that they are no longer going to be considered in the process and the reasons why.

Destination Excellence recommends companies evaluate vendors on three specific criteria. These criteria should receive the appropriate weighting to reflect what is most important to the company. The criteria include:

- Quality. Recommended to be the most highly weighted criteria (normally 50% or more), quality reflects the ability of a vendor to produce consistently high levels of performance. To judge quality, Destination Excellence utilizes its 100-Point Audit to evaluate vendors (see Optimizing Customer Care Operations – The 100 Point Audit for specifics). Vendors receive a score based on a one to two-day audit of their operation.
- Cost. Vendors' submissions are also evaluated in terms of cost. Costs include start-up costs, ongoing costs and termination costs. Costs should be determined over the proposed lifetime of the partnership agreement. Costs may be factored by year to take into account the greater certainty in costs in the early years.
- Strategic Fit. For longer-term partnership agreements, an evaluation of vendors is necessary to determine if the direction and investments vendors plan to make are consistent with the needs of the company. For example, investments in integrated marketing databases may be important and therefore should receive consideration. While the strategic fit assessment is rarely the final determinant of the selected vendor, in cases where the current quality and cost are essentially the same between two vendors, a strategic fit assessment can help select the best long-term vendor.

With the scores and weights from the above sections, vendors can be rank ordered in their overall score.

Vendor Selection

Vendor selection requires a balance between objective and subjective opinions. Objectivity is required to ensure the greatest value is achieved (highest quality at the lowest cost). Subjectivity is required because there is some wisdom behind instinct. If a decision makes sense on paper, but doesn't pass the "gut check" then something needs to be resolved.

Destination Excellence recommends that each vendor receive a relative score in the areas of cost, quality and strategic fit. Relative score compares a particular vendor's score with the best score in the group. Each relative score is then multiplied by its associated weight to determine the overall vendor score. The chart below provides and example of the determination of three vendors. (Best scores are highlighted in yellow.)

Vendor	Quality (100-Point Audit Score)			Total Project Cost (in millions)			Strategic Fit		
	Weight	Score	Relative	Weight	Score	Relative	Weight	Score	Relative
1	50%	2.70	100%	40%	$1.20	83%	10%	2.85	98%
2	50%	2.55	94%	40%	$1.10	91%	10%	2.90	100%
3	50%	2.48	92%	40%	$1.00	100%	10%	2.70	93%

Calculating the total relative score is accomplished through the following:

(Quality Weight * Quality Relative Score) + (Cost Weight * Cost Relative Score) + (Strategic Fit Weight * Strategic Fit Relative Score)

Based on this, the vendor overall relative scores would be:

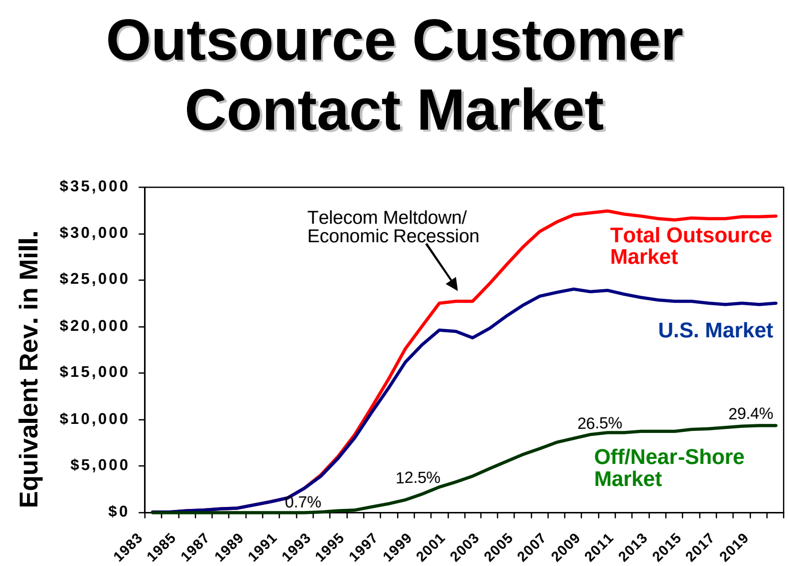
Vendor	Overall Score
1	93.2%
2	93.6%
3	95.2%

Based upon this scoring, vendor 3 would be the selected vendor. The driver of this decision would be based on their ability to deliver a good quality program at the lowest cost. At this point, the selection team would have to determine by "gut check" if this seems like the best decision. If it does not, then the team should discuss either changing the weights of each area, or perhaps establishing a minimum quality or strategic fit standard.

While the vendor selection methodology provided is a valuable tool, the tool itself should not blindly lead to a decision, but with management intuition help clarify the decision that is made. This approach has been used by a number of clients of Destination Excellence successfully.

Offshore Partnership Considerations

Many companies have asked questions regarding offshore or near-shore outsource partnerships. Offshore and near-shore outsource companies will continue to become a major factor for companies whose customer base is in the United States. Destination Excellence estimates that offshore and near-shore outsourcing will be 30% of the revenues of outsource market, representing 45% of transactions, over the next ten years. (This subject is detailed in a separate white paper provided by Destination Excellence.)



Source: 2003 Destination Excellence estimates

So how are offshore and near-shore companies evaluated relative to U.S. based outsource groups? The short answer is using the same methodology described in the previous subsections.

When evaluating outsource vendors, companies must remember that most customers do not care about the location where their call is being answered. What they care about is the quality, friendliness and effectiveness of their interaction. Companies must ask the same question they would of a domestic outsource partner: How good is the quality, what will it cost me and is this a good long-term strategic partner for me? Within that evaluation, companies will find that they need to focus on specific areas to gain an accurate picture of the quality/cost/strategic fit of an offshore or near-shore outsource partner. These include:

- Disaster recovery. Companies must understand that the likelihood of a disaster is in a different magnitude in some other countries than it is in the United States. Natural disasters, political unrest and potential war take on different dimensions in some of these countries. Contingency plans, therefore, must take on different proportions in the evaluation.

- Culture. Every country has a unique culture that may or may not translate well in an application. For example, some cultures have a strong service culture, but not a strong sales culture. Placing a sales program in such a country would be courting disaster. Likewise, some countries are heavily technology oriented which may make placement of support programs advantageous in these countries.
- Tone/Accent. Americans have moved away from accent being a significant issue. However, customers expect that they will be able to easily understand the person with which they are speaking. Ability to clearly articulate key words is essential in selecting an outsource partner.
- Cost. Even with domestic outsource groups, costs should include travel and support expenses in order to manage the outsource partnership. Often these costs with domestic outsource companies is not significant. With offshore companies, this cost can be significantly higher and must be added into the cost equation.

The above are simply areas already covered under the current evaluation approach described in this section. Offshore and near-shore outsource companies offer a great opportunity for companies to decrease costs and should be included in any outsource decision.

LEVERAGING YOUR OUTSOURCE PARTNER

There are many advantages to outsourcing and companies should look to maximize the advantage of their outsource partnership. It is in the best interest of the company and their outsource partner to fully leverage this relationship.

This section will review three common ways companies leverage the outsource partnership. These include access additional operating capacity (operational flexibility), accessing an untapped workforce or access new technology without the capital cost.

Operational Flexibility

Companies often find challenges in coping with the cyclical nature of their business. In some companies the peak contact month to low contact month ratio can be as much as two, or higher. Cyclical peaks and valleys within a year may cause companies to hire new staff only to lay off that same staff later in the year. This can cause strain excessive strain within the workforce and harm a company's reputation within the community. Outsource partners can absorb cyclicality by utilizing people across a variety of programs throughout the year. This approach provides a stable environment for a company and its work force throughout the year.

Other companies may have a relatively low peak month to low month ration, but may have challenges maintaining a trajectory of growth. This is particularly true in newer industries where annual growth rates can easily exceed 25%. Opening new facilities, project managing technology installations and installing a new workforce can distracting a company from managing its core business. Such distractions can ultimately stunt the growth of the business itself. Utilizing outsource groups allows companies to maintain their focus on the core business without losing market momentum.

Lastly, some companies wish to avoid spending significant capital on new facilities. Capital investment often receives a higher rate of return in other parts of the business outside of the customer contact operations. After maximizing utilization of existing facilities, companies turn to outsource groups to provide additional capacity without capital spending.

Workforce Access

Contact center positions have become the largest entry-level opportunity in the United States. The growth in employment in the industry has created challenges of locating qualified candidates and turnover of the existing workforce for companies. In addition, normal local demographic changes have made previously attractive locations longer attractive for call centers. Companies find themselves in a quandary of escalating wages in a constricted talent pool with the only viable option of relocating facilities every five years to follow workforce trends.

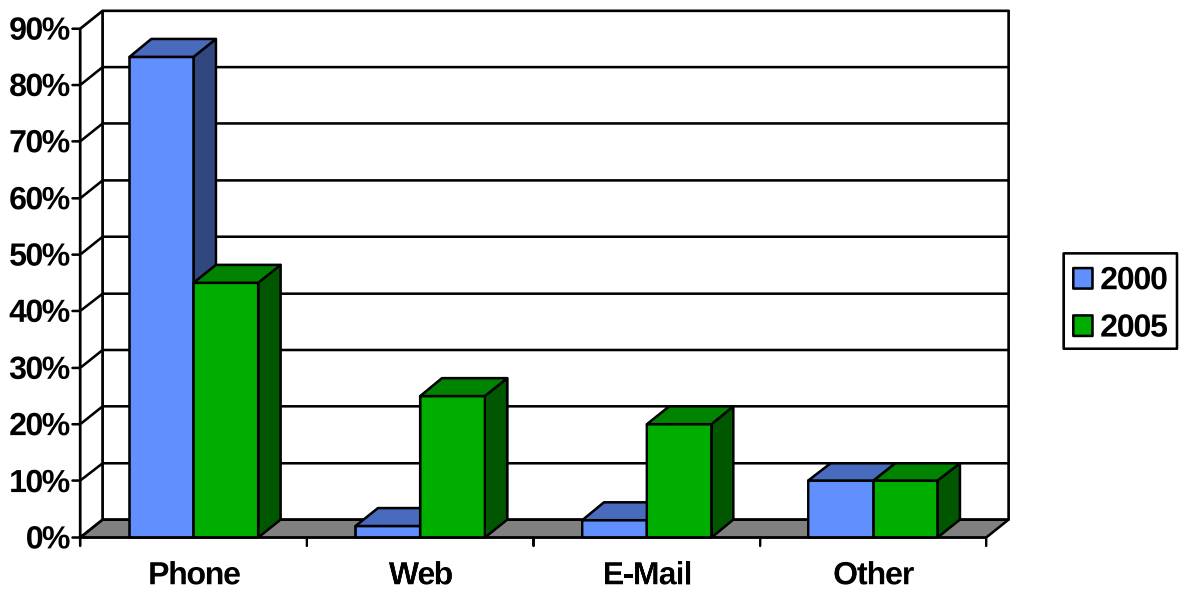
Contracting outsource groups allows companies to disconnect themselves with labor location issues, leaving that issue in the hands of the outsource provider. Due to their size and flexibility, outsource groups are particularly adept at maintaining flexibility in labor locations to attract a strong workforce in geographically disperse areas. This allows companies to tap into a constantly changing labor pool without incurring the expense of moving existing facilities.

Access to Technology

Over the next five years, customer contacts are expected to change in total volume (the number of customer contacts is expected to double from 15 billion in 2000 to over 30 billion in 2005) and manner (with greater use of non-voice electronic communications). As important as the increase in contact volume is the change in the mix of that volume.

For example, in 2000, 85% of all customer contacts were via phone. While the overall volume of calls will increase slightly (from 12.75 million to 13.50 million) from 2000 to 2005, the proportion of calls as a percentage of total volume will drop to 45%. While calls will become less pronounced in the mix on contacts, web interaction and e-mail contacts grow from 2% to 25% and 3% to 20%, respectively.

The Migration of Customer Contacts 2000-2005



This migration of customer contact methods calls for contact centers to invest in significantly better integrated technology. Approximately 50% of all contact centers will require installation of some significant technology over the next five years to meet the changes in customer interaction. Investing in this technology not only can strain capital resources, but human resources as well. Companies will find great advantage in partnering with outsource companies to access this technology and satisfy market requirements without direct capital investment. The following sub-sections review some of the key areas of technology that will be required over this period of time.

<u>Interactive Voice Response (IVR)</u>

Customers actually prefer interfacing with an IVR in certain instances. Financial transactions, dealer locator and quick information are easily obtained from an IVR, often more quickly than with a live contact. Add the fact that IVRs are available 24x7 and many customers demand an IVR interaction.

Just over 56% of call centers use IVR technology, with another 22% in the planning stages. The critical issue with the IVR lies within the set-up. Typically, an IVR asks a caller to respond to a series of questions by selecting a button on their touch-tone phone. Using the automated answers from the caller, the IVR will provide answers to common questions, billing amounts and due dates, or will direct the caller to the appropriate personnel within the call center. However, customer satisfaction typically decreases with each selection that is made, making the set-up of the IVR questions critical to overall customer satisfaction.

Workforce Management Systems

Workforce management systems provide an avenue for significant cost savings. Currently, only 29% of call centers in the US utilize workforce management software, such as TCS (Aspect), IEX or Blue Pumpkin. It is essential, particularly within call centers of over 100 seats, that staffing and scheduling be as accurate as possible. As wages and benefits are the primary variable cost in a call center (80-85%), good workforce management software is not only helpful in managing costs, it is critical. Use of the Real Time Adherence feature in the TCS module is also helpful in managing agent adherence to schedule.

CTI (Computer Telephony Integration)

CTI, also referred to as 'screen pops', is a fairly new technology and is present in roughly 23% of all call centers today. CTI technology recognizes the phone number that a caller is calling from, dips into a customer database, and automatically delivers the customer information to the agent when the call is answered. The purpose of this technology is to increase customer satisfaction through instant recognition by the agent, and to decrease handling time and data entry errors by eliminating much of the data entry after the first customer contact.

Customer Relationship Management (CRM) and Database

CRM provides an integrated avenue for a company to communicate with its customers. More important than this interface, however, is the integrated database. An integrated database provides a company with the ability to track all of a customer's activities and interface with that customer seamlessly.

While all companies agree on the value of CRM, the main reasons why companies have not implemented it within their operation are cost and complexity. Outsource vendors offer CRM and integrated databases as part of their services today. Companies can access this technology through their outsource partner.

The Outsource Partner Perspective

While this section looks primarily at ways to leverage the relationship to the advantage of the client company, what is the perspective of the outsourcer? Is this truly a partnership that works both ways? In a word, yes.

Outsource groups' position in the market is to add the greatest value to any client. The outsource group must have a complement of facilities, people and technology in order to position themselves competitively. As with any other business asset, outsourcers gain financial benefits as the utilization of their facilities, people and technology increases.

Good outsource companies also understand there is great value in selling additional services that a client can leverage, and negative value in selling a client something that they cannot leverage positively. The best outsource companies build long-term client relationships by providing access to facilities, people and technology that add significant value to clients thereby building relationships build on trust.

DESTINATION EXCELLENCE - YOUR COMPETITIVE ADVANTAGE

Excellence is more than a word – it's a destination.

During this period of rapid and often chaotic change, internal resources can be stretched beyond capacity. Many companies use industry professionals, to augment resources. Destination Excellence brings practical understanding with a history of success from both the utilities and telecommunications deregulatory environments. Our experienced professionals can assist you in achieving excellence by developing custom programs to maximize sales, improve customer service, decrease costs and ultimately, increase your profitability.

- **HIRING AND TRAINING** – 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.

- **FORECASTING AND STAFFING** – Destination Excellence utilizes a proprietary set of call volume forecasts, customized to fit your individual needs. Based on specific call volume drivers that are unique to you, our call volume forecasts have been accurate to within 5% on a daily basis.

- **PROFIT MANAGEMENT** - Whether your call center is internal or outsourced, the cost of doing business is interconnected with each area of your company. 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. We will also assist you in minimizing your overall costs while increasing your service levels. The key is to correctly determine the factors that drive your business and optimize those performance factors.

- **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.

- **OUTSOURCING** – 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.

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