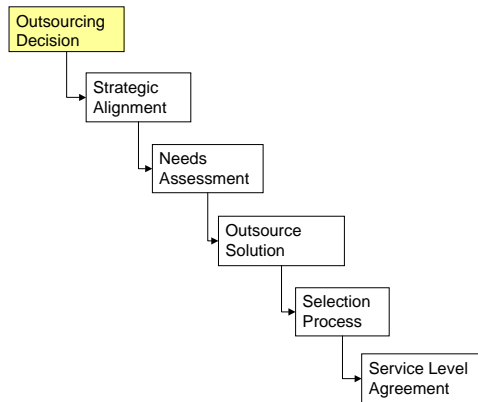


## Outsourcing Decision



This section of the toolkit is designed for those organizations that are in the process of making an outsourcing decision. The purpose of this section is to examine the business **reasons** for outsourcing, and what business conditions are favorable to an outsource solution.

The Part 1 of this section discusses **vision** and **mission**, and the different business models that are pre-disposed to outsource call center functions. This section is intended to be stage setting by bringing your business model into play. The goal of Part 1 is to insure that your decision to outsource is consistent with and supports your business model.

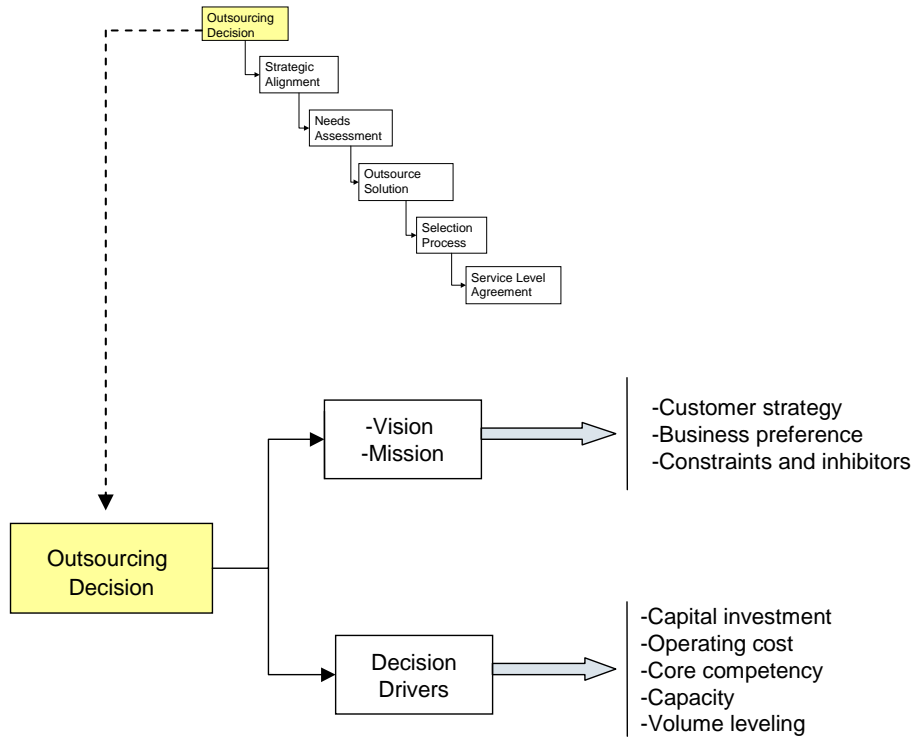
Part 2 presents concrete **business drivers** that would influence or necessitate an outsource decision. The decision drivers are described above in the master guide. These drivers may lead to an outsource decision regardless of the evaluation completed for Part 1.

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## Making an Outsourcing Decision

A decision to outsource will be influenced by the vision and mission for your organization and critical business drivers. The diagram below shows the important elements of vision, mission and decision drivers.

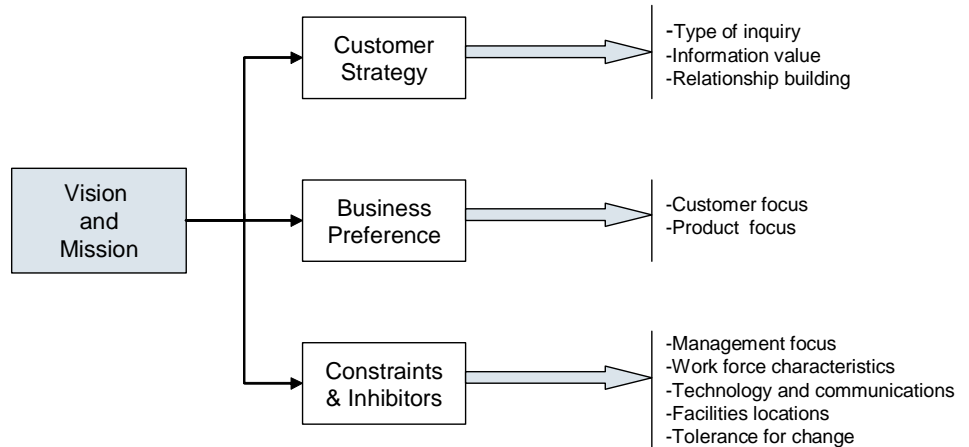


Your **business model** and associated vision and mission will determine if you are a good outsource candidate. This section will help you understand your business model and the implications it has on your outsourcing decision.

## Vision and Mission

An organizations vision, mission and values are the fundamental drivers of the business model. They establish the **role** and **importance** of operating units within the organization. A call center's role can be determined by reviewing the vision, mission and values.

The relative importance of the call center's role will influence the decision to outsource or keep the call center in-house. If the call center is viewed as a **vital** part of the operations of the business, the decision becomes more difficult. If the call center is more of a **passive** function within the business, the decision becomes less difficult. The following diagram is the guide used for this section:



The starting point is to document the vision, mission and fundamental values. This is the basic **reference material** used in this section for evaluating the call centers role and organizational importance. The worksheet that follows is used to capture your organizations vision, mission and values.

Below are some examples of vision, mission and values from respected companies with different business models. Review these examples, and then complete the worksheet on the following page for your organization.

Examples	Vision	Mission	Values
Network & Communications Company	Change the way we work, live, play and learn	Shape the future of the Internet in ways that empower Individuals to participate fully in our vision	<ul style="list-style-type: none"> <li>-encourage new and diverse members to fully participate and collaborate</li> <li>-generate superior products and services</li> <li>-leverage the diversity of employees, partners, suppliers and customers</li> <li>-remain agile and innovative in an ever-changing market landscape</li> </ul>
Technology Manufacturing Company	Technology we invent today will shape the world's future	The preemptive building block supplier to the Internet economy	<ul style="list-style-type: none"> <li>-leadership from quality manufacturing</li> <li>-operational innovation by fully utilizing e-business tools</li> <li>-use research to overcome technical barriers</li> </ul>
Manufacturing And Service Company	What remains constant is our dedication to change and progress	Dedicated to turning good Ideas into products and services that make the world a better place	<ul style="list-style-type: none"> <li>-Measure success by that of our customers</li> <li>-Growth driven and globally oriented</li> <li>-Use the advantage of size to take risks and try new things</li> <li>-Use benefits of the digital age to accelerate success</li> </ul>
Financial Services Conglomerate	Premier provider of global financial services	Market leadership for every major activity in global financial services	<ul style="list-style-type: none"> <li>-Customer centered providing unparalleled levels of service</li> <li>-Capital employed in high margin businesses</li> <li>-Close watch on overhead costs</li> <li>-A strong focus on technology and innovation</li> </ul>
Software & Consumer Products Company	Finding new ways for technology to enrich peoples lives	Enable people and businesses throughout the world to realize their full potential	<ul style="list-style-type: none"> <li>-Earn customer trust through quality of products and services</li> <li>-Enable people to do new things</li> <li>-Be accountable for commitments, results and quality</li> </ul>

– **Worksheet**

What is the vision for your organization?

What is your organization's mission statement?

What are the values that support this vision and mission?

## *Evaluating Vision and Mission*

Examining the vision, mission and values will help you determine the importance and role of the call center in the overall business model.

The decision to outsource will be based on the evaluation of the call center's importance in the business model and the results of other key decision drivers relating to the operating preferences and economic conditions of the organization.

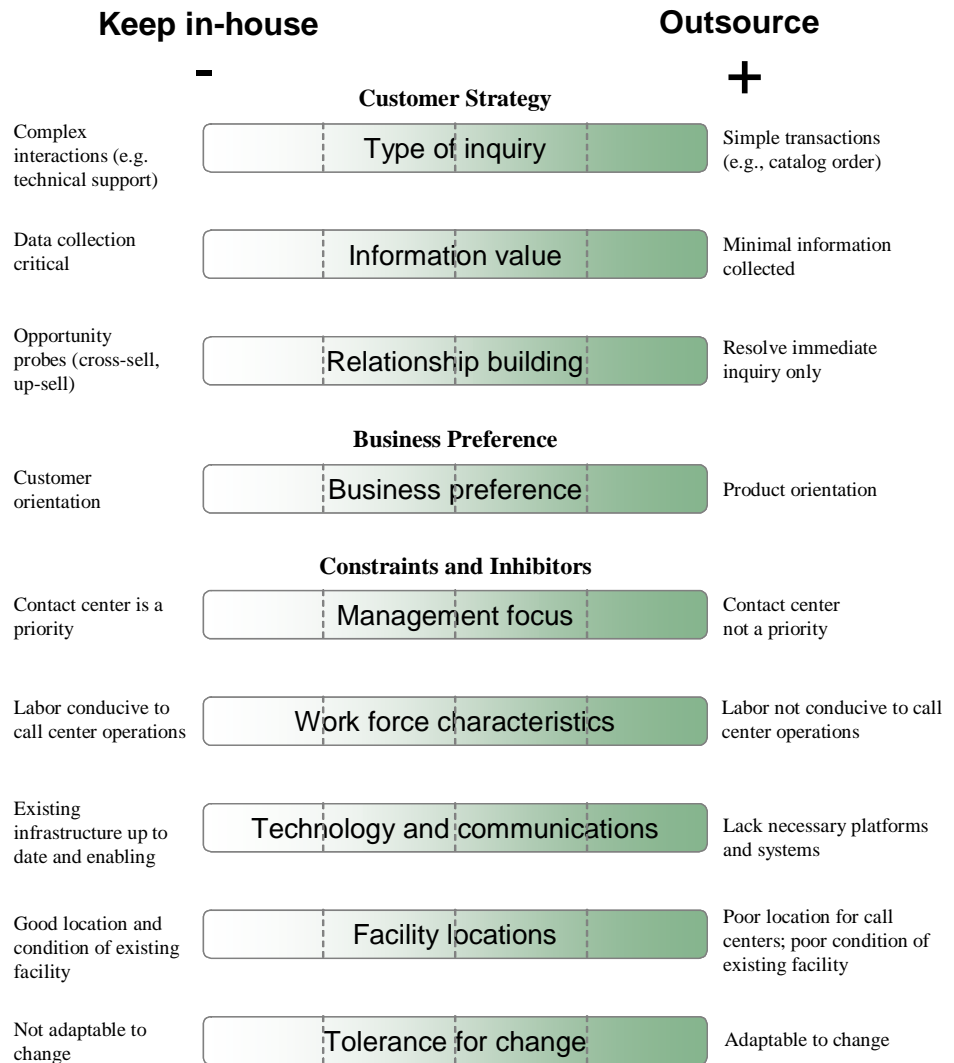
The content of the vision, mission and values should be looked at in the **context** of the call center's role. The task is to judge the significance of the call center role to overall success of the business. You can accomplish this by ranking **key criteria** for your organization. These criteria include:

- Customer Strategy
  - Type of inquiry
  - Information value
  - Relationship building
- Business Preference
- Constraints and Inhibitors
  - Management focus
  - Workforce characteristics
  - Technology and communications
  - Facility locations
  - Tolerance for change

## Decision

---

The following template is designed for ranking key criteria after you analyze your vision, mission and values. Your evaluation will show you if an outsource solution is a viable option (indicated with a plus sign on the right-hand side) or if keeping the call center in-house is a better business decision (indicated with a minus sign on the left-hand side). This section provides guidelines for evaluating and ranking yourself against each key criteria.



### Directions for this section

1. **Scan** the assessment form (Part 1) shown in the previous diagram (also provided at the end of this section and on the CD-ROM).
2. **Read** the guidelines on the following pages to gain an understanding of how to rank your organization against these criteria. Examples are provided from other companies to provide additional insight. Note that this is not a scientific or exact mathematical exercise. Rather, the assessment is designed to illustrate your general business position against these criteria
3. **Complete** the assessment form (either with the diagram on the CD-ROM or on paper with the assessment at the end of this section – see Assessment Part 1).

## Customer strategy

The customer strategy implied or suggested in the vision and mission will influence your outsourcing decision. The business model expects a certain **relationship** with the customer that the call center must execute. The complexity and demands coming from your customer strategy will create a bias for or against outsourcing. The points to evaluate are:

- Type of Inquiry
  - Simple transaction
  - Complex interaction
- Information Value
  - Minimal information
  - Data collection critical
- Relationship Building
  - Resolve immediate inquiry
  - Opportunity probes

To illustrate how a customer strategy evaluation works, reference the *Network and Communications Company* vision, mission and values shown below.

Examples	Vision	Mission	Values
Network & Communications Company	Change the way we work, live, play and learn	Shape the future of the Internet in ways that empower Individuals to participate fully in our vision	-encourage new and diverse members to fully participate and collaborate -generate superior products and services -leverage the diversity of employees, partners, suppliers and customers -remain agile and innovative in an ever-changing market landscape

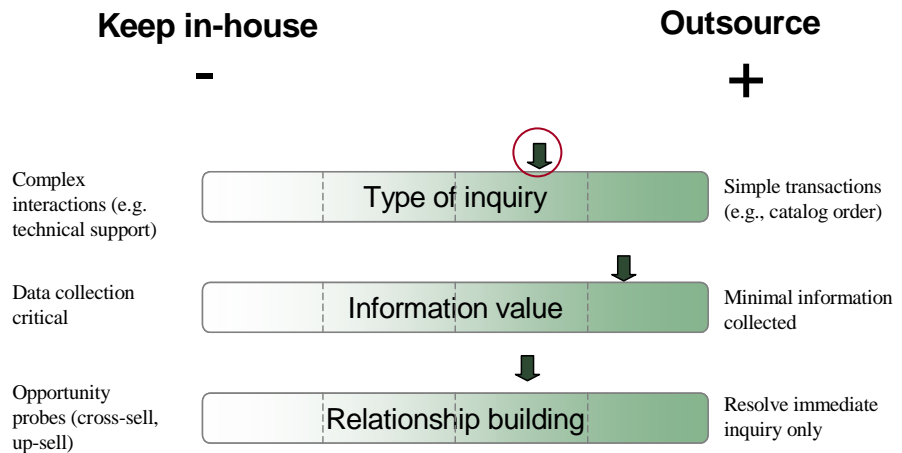
Reviewing this material the following general observations can be made:

- Emphasis is on new members and individuals.
- Product creation instead of add on sales.
- Diversity over relationships.
- Encourages change and rapid market response.

The customer strategy interpretation for this company would be:

- Preference for simple transactions that support new product consumption – favorable to outsource.
- Biased toward product and market changes requiring minimal information – favorable to outsource.
- Preference for new customers and diversity verses established relationships – favorable to outsource.

This example, when translated to the assessment, shows **favorable** conditions to outsourcing. The company is focused on growth created from product development and distribution supported by an e-commerce infrastructure. This company is plotted on the reference template below:



## Business preference

A company will generally have a preferred way of operating a business. The two main preferences are to (1) manufacture and distribute **products** or (2) leverage **customer** relationships.

- Product Focus
  - Well developed distribution networks
  - Frequent new product introductions
  - Research and Development bias
- Customer Focus
  - Relationships & retention
  - Up selling similar products
  - Marketing bias

To illustrate how the business preference evaluation works, reference the following vision and mission for a *Technology Manufacturing Company* as shown below.

Examples	Vision	Mission	Values
Technology Manufacturing Company	Technology we invent today will shape the world's future	The preemptive building block supplier to the Internet economy	-leadership from quality manufacturing -operational innovation by fully utilizing e-business tools -use research to overcome technical barriers

The following general observations can be drawn from this material.

- Complete and clearly stated product orientation.
- Manufacturing and operations drive the business.
- The e-business commitment makes the customer transparent.
- The company is a value added supplier.

The interpretation for this example shows a product business preference, and this positioning is more **favorable** for outsourcing call center functions. The evaluation for this company is shown below.



## Constraints and inhibitors

This section covers the call center positioning relative to constraints and inhibitors. The points evaluated will determine if the call center is **positioned** correctly relative to the vision and mission. If constraints impact performance, then a decision to outsource or update is necessary. The constraints and inhibitors to evaluate are:

- Management Focus
- Workforce Characteristics
- Technology and communications
- Facilities Locations
- Tolerance for change

To illustrate how constraints and inhibitors influence a outsource decision, reference the vision and mission example for a *Manufacturing and Service Company*.

Examples	Vision	Mission	Values
<div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto;"></div> <p>Manufacturing And Service Company</p>	<p>What remains constant is our dedication to change and progress</p>	<p>Dedicated to turning good Ideas into products and services that make the world a better Place</p>	<p>-Measure success by that of our customers -Growth driven and globally oriented -Use the advantage of size to take risks and try new things -Use benefits of the digital age to Accelerate success</p>

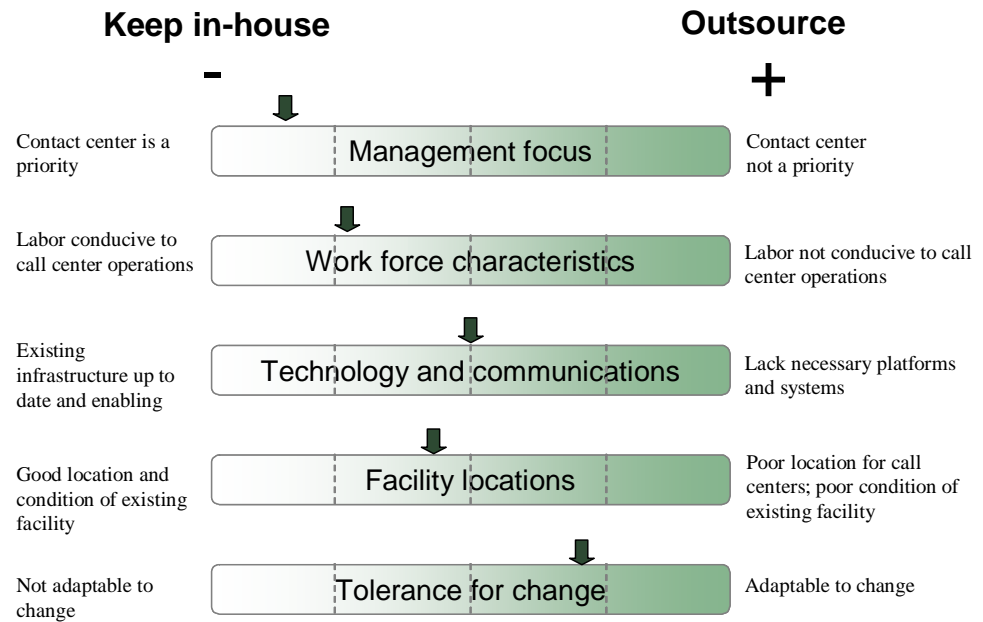
The following conclusions can be drawn from this material.

- Management considers quality service a high priority.
- Innovation and improvement are encouraged.
- The workforce characteristics are conducive to delivering quality service.
- Technology and communications provide e-commerce benefits.
- Facilities should support the customer relationship preference.
- Change is encouraged and expected.

The interpretation of constraints and inhibitors for this company would be:

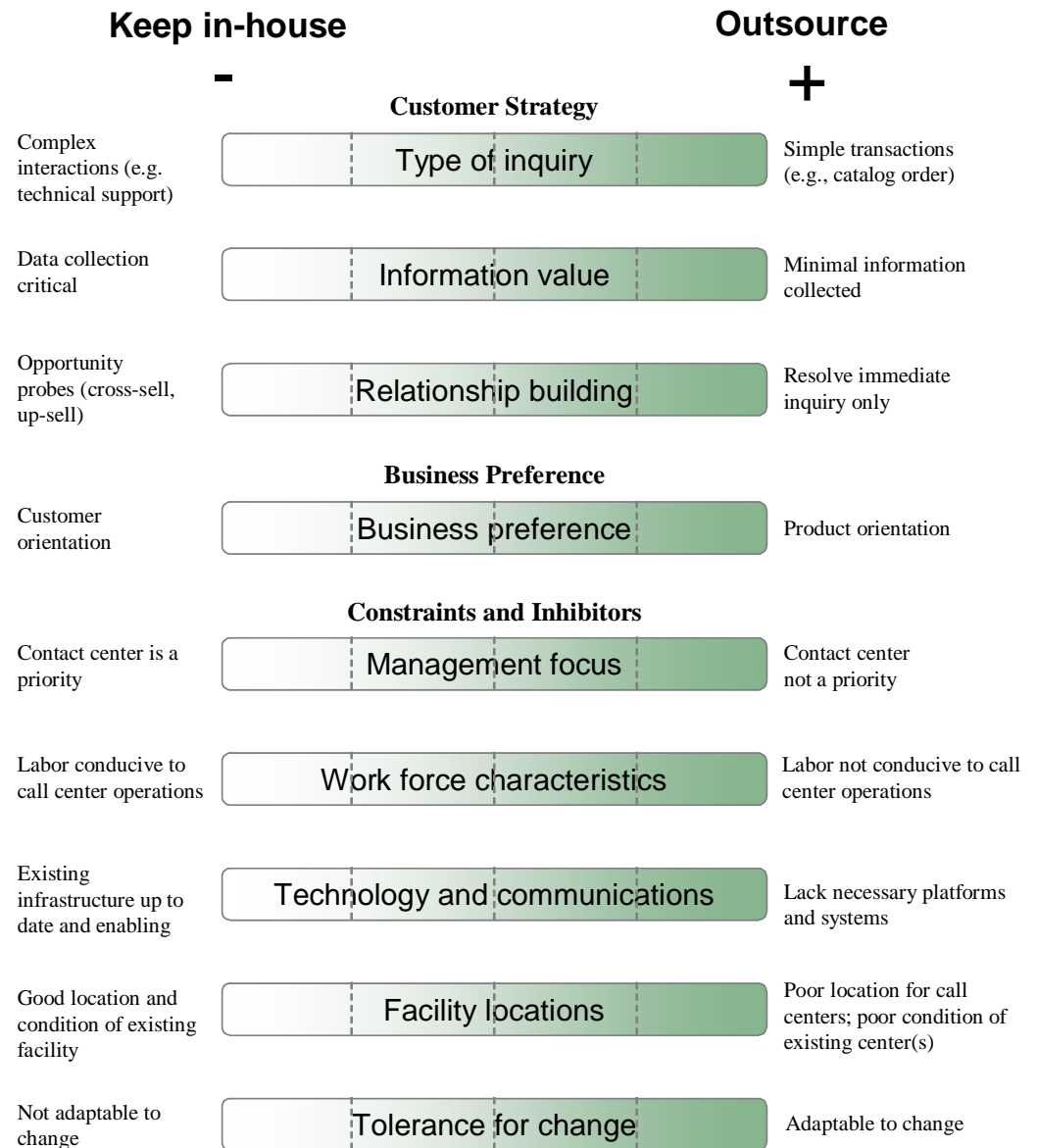
- Management would have interest in the call center and service performance – favorable to *in-house*.
- Workforce availability and skills is not a prohibiting factor and important to the delivery of service – favorable to *in-house*.
- Premium placed on technology that fosters benefits of electronic transactions – neutral to outsourcing.
- Facilities should support the service ethic important to the company – favors *in-house*
- Change and innovation are encouraged – the organization could accept an outsource solution.

This example is **neutral** to an outsource proposition. The company could go either way depending upon the decision drivers that influence the decision. However, if outsourced the supplier would have to strictly comply with the service ethic of the company. The evaluation is below:



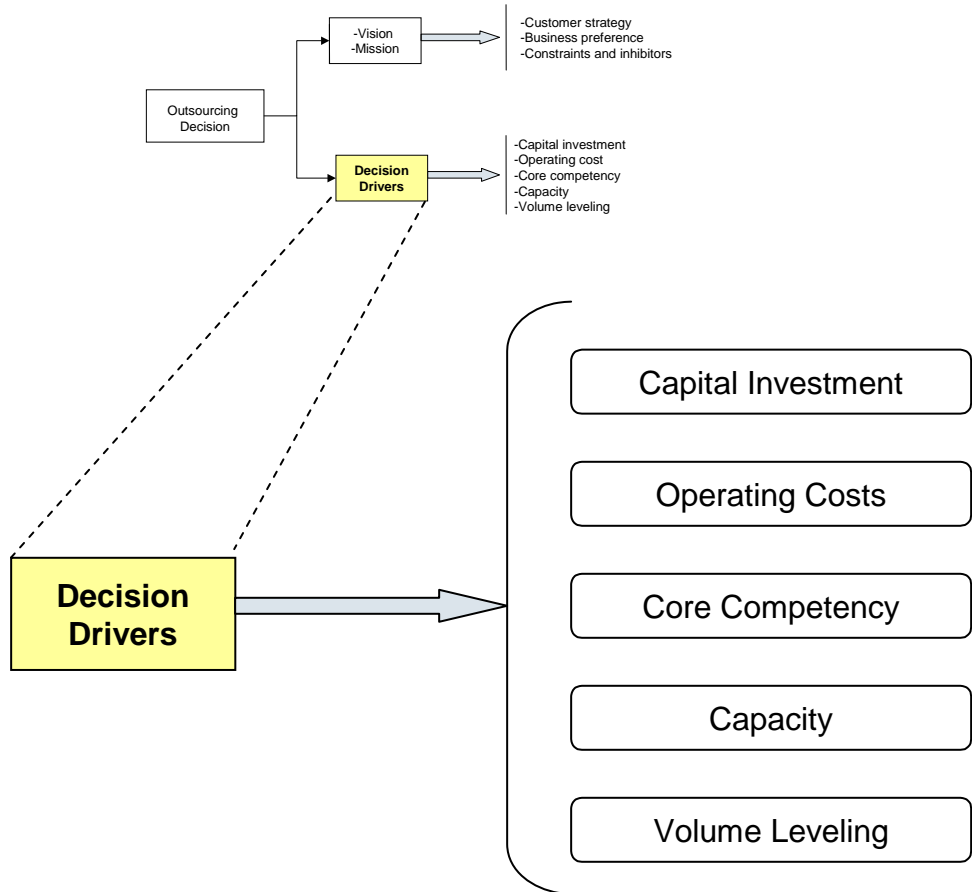
### Assessment Part 1 worksheet

Indicate where your organization falls on each criteria based on your evaluation of vision, mission and strategy. These results will be combined with the results from the next section to help guide your outsourcing decision process.



## Decision drivers

Key business issues faced by a company also influence an outsourcing decision. Unlike the vision and mission analysis that help you understand the larger business model, these drivers are business realities related to economic and competitive conditions. They impact bottom line and service performance, and can be the overriding factor in an outsource decision. The diagram for Decision Drivers follows:



### Directions for this section

1. Scan the assessment form at the end of this section (see Assessment Part 2)
2. Read the guidelines on the following pages. At the end of each topic, a sub-set of the assessment is provided. Complete these assessments as you read through the section.
3. Compile your results into the assessment form at the end of the section (see Assessment Part 2).

## Capital investment

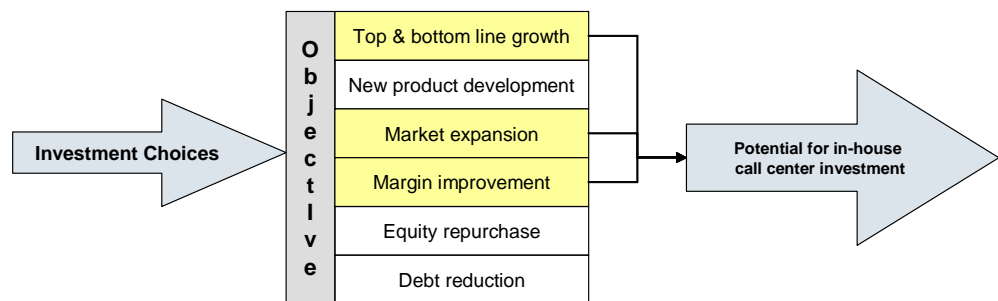
Effective **use of capital** is a major consideration in the call center decision process. Call centers require ongoing investments in technology, equipment and facilities. **Trade-offs** for this use of capital (i.e. what other ways could your organization be spending the capital) will influence an outsourcing decision.

Three key factors must be evaluated when justifying call center investment.

- **Investment Choices**
- **Return on Investment**
- **Availability of Capital**

## Investment choices

An organization has choices available for use of investment dollars. Some **investment preferences** would support investing in call center assets while others would not. The diagram below shows six potential uses for capital dollars. Those areas highlighted in yellow illustrate a stronger tendency for in-house call center investment in most situations, whereas the remaining investment choices including new product development, equity repurchase and debt reduction would be pre-disposed to outsourcing call center functions.



## Return on investment

Return on investment analysis simply **compares** the return of a call center capital investment to other investment choices. Since a call center is usually an expense base, the forecasted saving from the investment is the bottom line return.

A return calculation should be **consistent** with that used by a company to make all investment decisions. The formulas commonly used are:

- Discounted cash flows
- Simple payback
- Earnings contribution
- Return on invested capital

## Availability of capital

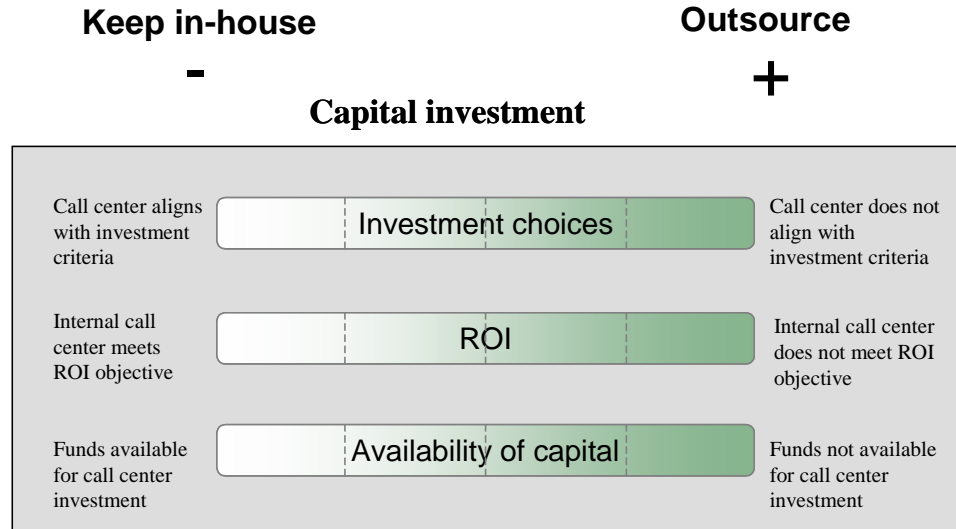
The source and availability of capital often determines the outcome of an investment decision. Primary sources of capital are:

- Equity
- Internal cash flow
- Debt financing

A decision to build a call center can be quite different if heavy borrowing is needed rather than having sufficient cash on hand. Outsourcing can be a good choice if an internal call center investment creates unwanted financial risk.

### Exercise - capital investment positioning

Using the form below, indicate the relative positioning of your organization related to each capital investment area.



## Operating costs

The operating cost of a multi-media call center can often be an **overriding driver** in the outsource decision. The call center must deliver service at reasonable costs without placing burden on product pricing. In the outsource decision process, costs should be carefully analyzed to insure the best economic outcome.

An operating cost analysis will consider the following:

- **Internal costs**
- **Compared to outsource alternatives**
- **Cost structure**

## Internal costs

Internal costs represent the expense base needed to **operate** a call center. Analysis of in-house operating costs will determine if the call center is a burden or benefit. The key is finding if costs are in line with business activity.

The best analysis is to **compare** call center **expense** increases against **revenue** behavior. The first part of the analysis is year-over-year expense growth. This work produces a percentage increase or decrease in expenses. The percentage change is then compared to the percentage change in revenue growth.

A matching percentage shows costs are neutral to business activities. A lower rate of expense growth to revenue indicates a **plus** for the call center.

An accelerated rate of expense growth relative to revenue growth would indicate a **problem** in the cost structure.

## Compared to outsource alternatives

A good practice is to compare internal costs to **outsource alternatives**. This comparison benchmarks the call center expense base.

The call center operating costs were developed for the internal evaluation and become the base line. The second side of the equation is a cost estimate for the outsource solution. The estimate should be reasonable and can be based on informal quotes obtained from trade sources or outsource providers. Once an outsource estimate is made, it compares to total call center operating costs (including allocated corporate overhead.)

- Lower internal costs favor in-house
- Equal costs – neutral to outsourcing
- Higher internal costs favor outsource

## Cost structure

Cost structure will influence the choice to stay in-house or outsource. There is one of two basic cost structures present in the call center. The two types of cost structure are:

- Fixed
- Variable

A **fixed cost** structure means that the call center has assets and capacity to handle more volume. In this cost structure, as volume grows transaction costs decrease (cost per customer contact). The trend is lower transaction cost until new capacity is needed. A fixed cost structure favors **in-house** until full capacity is reached.

A **variable cost** structure implies full capacity and a preference to maintain stable transaction costs. The variable structure offers a predictable cost per transaction that is not influenced by future capacity needs. A variable cost preference would favor **outsource** solutions.

### Exercise - Operating cost positioning

Using the form below, indicate the relative positioning of your organization related to each operating cost area.

<b>Keep in-house</b>		<b>Outsource</b>
-		+
<b>Operating costs</b>		

Call center meets expectations	Year over year	Call center exceeds cost targets (e.g. compared to revenue)
Call center compares favorably to alternatives	Against alternatives	Internal costs are higher than alternatives
Fixed: Have investment in place that can be scaled	Cost preference	Variable: Ability to have consistent cost per transaction

### **Core competency**

The core competency driver determines if a call center fits with the organization's **primary operational preference**. It simply represents management's choice for resource allocation. A company may prefer product development or market expansion to operating a call center.

Core competency decisions are also influenced by the **market landscape** and **opportunities**. A fast growing and rapidly changing market may dictate one direction, while a static market share play may move you in another direction. Some factors for analyzing core competency include:

- Market position
  - Market share and retention
  - Growth and expansion
- Availability of talent
  - Abundant
  - Scarce
- Product life cycle
  - Short
  - Long
- Product distribution
  - Domestic
  - International

### Exercise – core competency

Using the form below, indicate the relative positioning of your organization related to each core competency area.

	Keep in-house -	Outsource +
	<b>Core competency</b>	
Stable market share and retention	<input type="checkbox"/>	<input type="checkbox"/>
	Market position	
Abundant	<input type="checkbox"/>	<input type="checkbox"/>
	Availability of talent	
Long	<input type="checkbox"/>	<input type="checkbox"/>
	Product lifecycle	
Domestic	<input type="checkbox"/>	<input type="checkbox"/>
	Product distribution	

## Capacity

A **need for call center capacity** is a major driver in the outsource decision process. Capacity needs trigger two issues:

- Investment needs
- Timing requirements

The previous discussion on capital investment covered fixed and variable costs issues. This section addresses capacity from the perspective of immediate and planned facilities.

**Timing** to provide new capacity may force an outsource decision. In many cases, careful planning and forecasting new capacity can be anticipated to provide ample time to bring a new call center online. However, in some cases capacity is required immediately, well before a new call center can be ready. In this case the outsource issue is forced, and it becomes a matter of a short or long term commitment.

Using the form below, indicate the capacity needs of your organization.

Keep in-house -	Capacity	+	Outsource +
Facilities available for immediate growth	Immediate capacity		Facilities not available for immediate growth
Time and resources available to create facilities	Planned capacity		No commitment to facilities expansion

### Volume leveling

Call centers often have a need to level volume to meet service expectations. Volume leveling is nothing more than **distributing** calls to handle:

- After hours
- Peak periods

**After hours** leveling is simply handling calls received after normal business hours. In this leveling approach calls are handled outside the primary call center or by extending the call center hours of operation.

In **peak period** leveling, excess volume is switched to a standby location. The call center can maintain consistent staff and overhead levels while maintaining desired service levels.

Using the form below, indicate the volume leveling requirements for your organization.

	Keep in-house -	Outsource +
	<b>Volume Leveling</b>	
OK to extend internal call center hours of operation	[ ]	[ After hours ] [ ]
Capacity and staffing capability present	[ ]	[ Peak periods ] [ ]
		Keep limited hours of operation internally
		Capacity not present or unable to staff peaks

## Outsourcing solutions

A number of outsourcing **options** are available. They range from complete outsourcing of your entire call center to outsourcing only certain functions (i.e., training, human resources, etc). The solutions discussed later in this toolkit are:

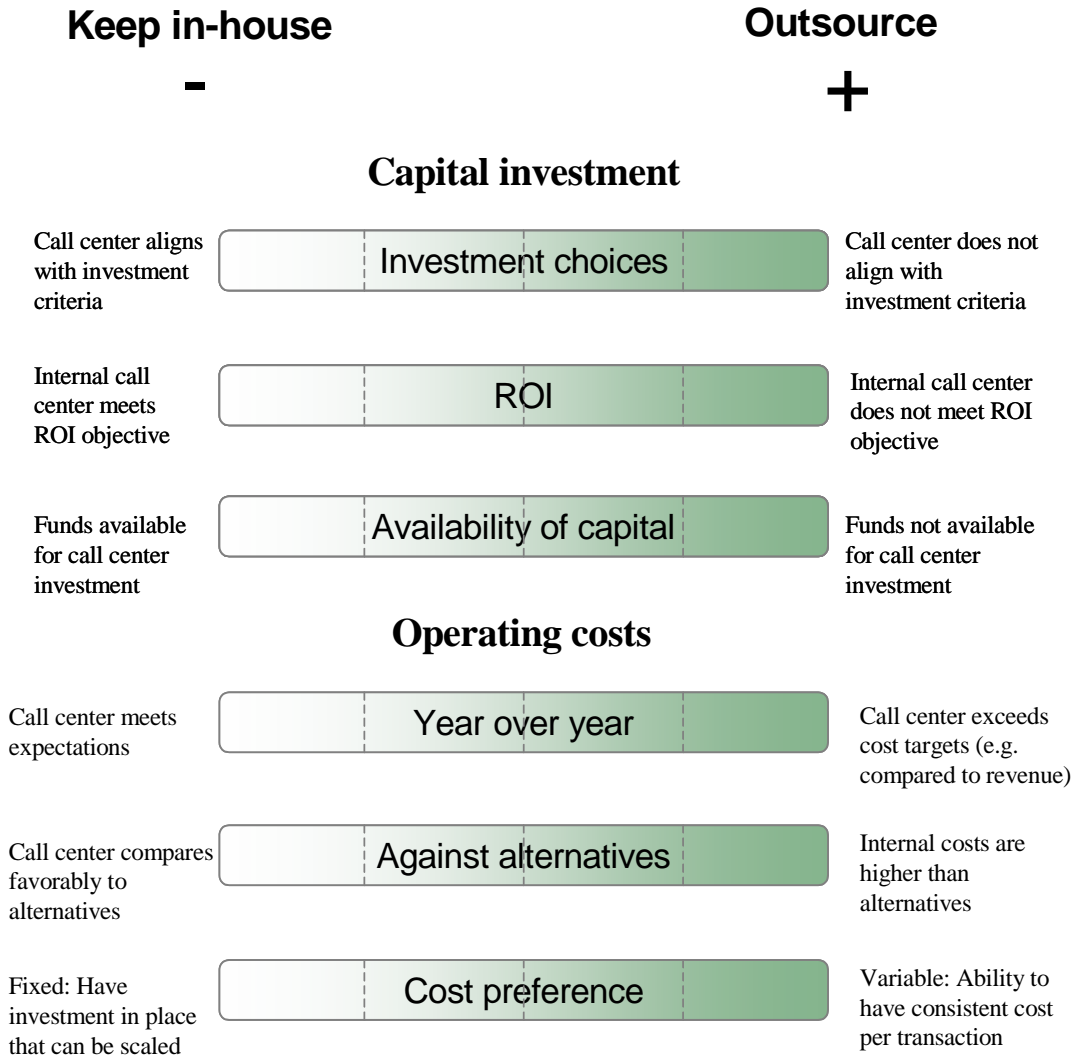
- Full outsourcing
- Partial outsourcing
- Co sourcing.

The reason this topic is introduced now is because an outsourcing decision is **not an all or nothing proposition**. Based on your analysis in this section, you may decide to outsource only part of your call center operation. The table below summarizes some of the possible options you may consider.

Outsourcing Solutions		
Options	Applies to	Conditions
<b>Full</b>	-Entire call center -Overflow volume -Additional facilities	-Discontinue operations -New center for start-up company -Cover excess capacity -New facility to support present operations
<b>Partial</b>	-Support functions -Professional expertise -Skills development	-Cover functional support needs -Provide subject matter experts -Financial benefit from buying out
<b>Co</b>	-Joint operations -Value sharing -Independent operations	-Business combination is financially rewarding -Call center combination creates scale -Captive call center becomes revenue producer -Combination eliminates capital expenditure

### Assessment form 2 – business drivers

Compile the exercise results from this section into the assessment form below.



**Keep in-house**

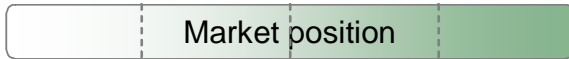
-

**Outsource**

+

**Core competency**

Stable market share and retention



Fast growth and expansion

Abundant



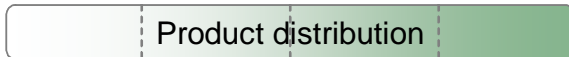
Scarce

Long



Short

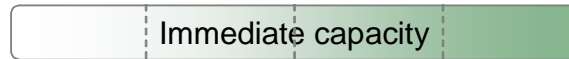
Domestic



International

**Capacity**

Facilities available for immediate growth



Facilities not available for immediate growth

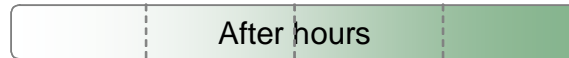
Time and resources available to create facilities



No commitment to facilities expansion

**Volume Leveling**

OK to extend internal call center hours of operation



Keep limited hours of operation internally

Capacity and staffing capability present



Capacity not present or unable to staff peaks

### ***Decision analysis***

You have completed two assessment forms in the section:

- Assessment Part 1 – vision and mission analysis
- Assessment Part 2 – business drivers

The profiles generated by these two assessments determine if you have a favorable condition to outsource or if you are pre-disposed to keeping the call center in-house. You also have the option of partial outsourcing.

Any one of the business drivers discussed here may force outsourcing independent of other factors. If you are pre-disposed to an in-house call center operation, yet a business driver forces an outsourcing decision, then the management of that outsourcing relationship in line with your business model will be more challenging and critical for overall business success.

If you have determined that outsourcing all or part of your call center operation is required for your business, then you should finish the decision process by:

1. Clearly documenting the business model and business drivers that led to this decision, including financial objectives for outsourcing.
2. List any assumptions that were made and validate those assumptions within the organization.
3. Determine the potential risks to the business based on your analysis in this section, including risks to customer relationships. This risk assessment will be useful as you consider your outsourcing strategy and needs assessment.