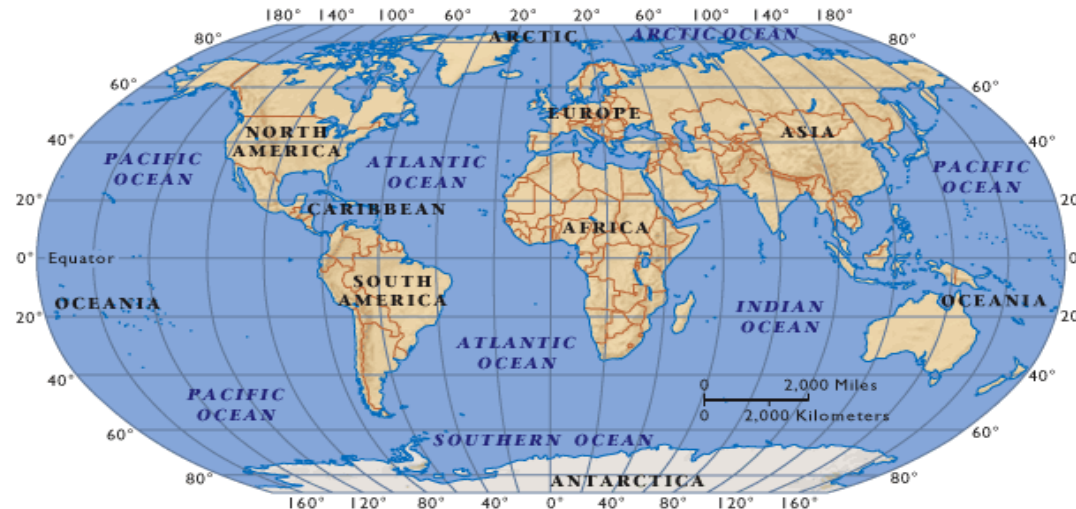

Outsourcing: What's the Direction Today?



Bill Price President Driva Solutions

Co-Founder LimeBridge Global Alliance, Chair Global Operations Council

Tele-seminar 4 August 2009

"Outsourcing: What's the Direction Today?"

- “Is India imploding? Now that Canada's loonie has reached parity with the US dollar, is the game over? Is Brazil the next big outsourcing location? Will we see more agents at home? So many questions, so little time.
- In this session, sourcing optimization veteran Bill Price will spin the globe and share what's hot, and what's not.”

"Outsourcing: What's the Direction Today?"

1. My credentials and experience, and six lessons
2. Spinning the globe
3. Basic data
4. Country risk analysis
5. Bringing it all together

1. My credentials

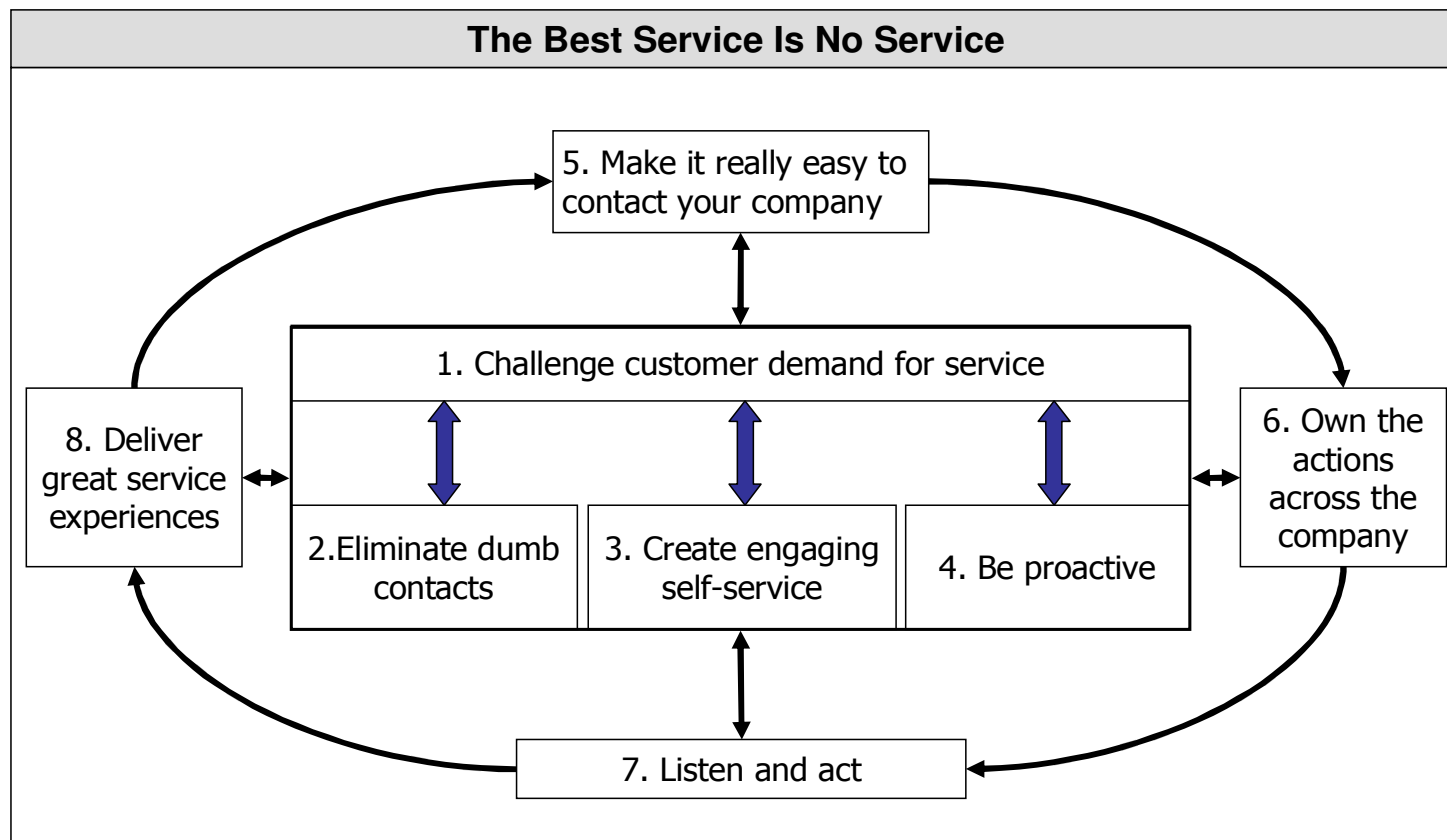
- International business experience with:
 - McKinsey (San Francisco and Stockholm offices)
 - Amazon (1st Global VP of Customer Service)
 - Driva Solutions' 80+ clients; 10-country LimeBridge Alliance
 - Chair Global Operations Council (32 companies)
 - Director of (new) Chief Customer Officer Forum, North America
- "Call Center Pioneer" (1997), including offshoring/outsourcing:
 - Set up MCI Call Center Services' Outsourcing arm → 2000 agents
 - Took Amazon offshore with 1st outsourcing contract, to India
 - Advising clients today re onshore/offshore, captive/outsourced
 - Built industry's 1st Country Risk Analysis and Global Vendor Directory

1. My credentials

- Writer and speaker
 - Lead co-author of *The Best Service is No Service* (2008)
 - Revising an updated version of “Best Service” for 2010
 - Producing new book *Where in the World (should we go next), and How on Earth (can we make it all work for our customers)?*, also for 2010
 - Written >30 articles and white papers including “Dispelling Five Myths Surrounding Offshore Outsourcing”. “Dual Shore Strategy”, “Move Agents into their Homes of a Double-Win”, and “Grab Your Atlas!”
 - Keynote speaker across US and all continents except Antarctica
- Visiting 73rd and 74th countries this fall, en route to 100!

1. *The Best Service is No Service*

How to Liberate Your Customers from Customer Service, Keep Them Happy, and Control Costs (Wiley & Sons, March 2008)



1. Global Operations Council (GOC) Members

Formed and chaired by Driva Solutions since March 2002; 34 organizations,
>USD750 billion revenues (excl IRS), >300,000 agents in >50 countries, 50% outsourced



1. LimeBridge Global Alliance

Peter Massey **UK**

Bill Price **Americas**

Osamu Taniguchi **Japan**

Frederic Jurain **France**

Tony Bruno **China**

Toby Detter **Sweden**

Ian Northmore **Singapore**

David Jaffe **Australia**

Stephan Pucker **Germany**

MD Ramaswami **India**



● = offices
● = sample project locations

1. Six lessons

1. Before considering it, eliminate need +/- or provide "successful" self-service
2. Offshore may be alluring, but plenty of onshore and nearshore options will work just fine
3. Outsourcers claim to "know it all", yet most don't
4. Multi-country outsourcers might know less than country specialists
5. Finding outsourcing partner = finding one's life partner, not a "vendor"
6. Don't outsource broken processes

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2. 1st spin: North America, Central America, Caribbean

“Call Centers Phone Home [small towns]”

“India company opens call center in ... San Jose [CA]?”

“Outsourcing gets closer to home with CAFTA”



“Hello, India? Er, Des Moines?”

“Caribbean Nearshore Worked For Me”

“Why Latin America Is The New India”

2. 2nd spin: South America

“Latin America Poised for BPO Growth” ... Brazil, Chile, Colombia [now] BPO hotspots”.

“Tata acquires Chilean BPO Company. India's largest software and services outsourcing company increases its presence in BPO”



“Contact Center Offshore in Brazil”

“Offshoring The Outsourcers [to China, Hungary, Czech Republic, Brazil, Mauritius]”

“Soccer, Samba and Outsourcing?”

“Enter Argentina as a nearshore destination”

2. 3rd spin: Europe (Western, Central, Eastern,) North Africa

"The Eastern Bloc of Outsourcing"

"Pru prompts threat of strike vote with plan to move jobs to India"

"Morocco's offshoring advantage"

"The African Connection"



"Budapest, the next Bangalore? New EU members join the outsourcing race"

"Offshoring The Outsourcers [to China, Hungary, Czech Republic, Brazil, Mauritius]"

"Move Over, India [re Romania]"

"Shortage of Skilled Labor Pinches Eastern Europe"

"Cairo – the New Call Center Mecca?"

2. 4th spin: Sub-Saharan Africa

“The African Connection”

“Ghana on the line: The West African country of Ghana is making moves to become the next big call service center.”

“Uganda: Soon to become a BPO hub”



“Africa's BPO sector expected to grow despite downturn (re Kenya)”

“Offshoring The Outsourcers [to China, Hungary, Czech Republic, Brazil, Mauritius]”

“South Africa: A Diamond in the Rough for Offshore Outsourcing?”

2. 5th spin: India, China, SE Asia, Philippines

“India’s tech firms hunting for help”

“Offshoring The Outsourcers [to China, Hungary, Czech Republic, Brazil, Mauritius]”

“India Faces a Homegrown Staffing Issue: Not Enough Talent”

“Outsourcing Comes Full Circle As India Starts to Export Jobs”

“Hurricane hot line for Texans answered in India”

“Goa could be new hub for call centres”



“Vietnam Vies to Get In on Outsourcing”

“Vietnam May Be Cheapest, But India Is Still A Bargain”

“Attracting more offshoring to the Philippines”

“With a job in sight: City schools [in India] trains visually impaired in German and French to help them land jobs in call centres”

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3. Outsourcing cost savings, operational advantages

Reasons to outsource

1. Obtain expertise, skills, and technologies
2. Increase flexibility
3. Improve operating performance
4. Reduce costs and investments in assets
5. Improve credibility and image
6. Expand capacity
7. Acquire innovative ideas
8. Accelerate expansion
9. Increase product and service value, customer satisfaction, and shareholder value

Source: *Strategic Outsourcing*, Maurice Greaver, 1999

3. More reasons to outsource

- Seasonal crunch support
- Can no longer hire qualified agents into current ops
- Operating cost pressures
- Not enough capital to build more captive centers
- Limited internal management skill to expand captive ops
- Want to take advantage of 3rd party skills or technology, e.g., chat or email
- Need broader time zone coverage, e.g., within US or “follow the sun” and/or for 24/7 coverage

3. Why outsource offshore?



From: Deloitte study Q404
% from respondents

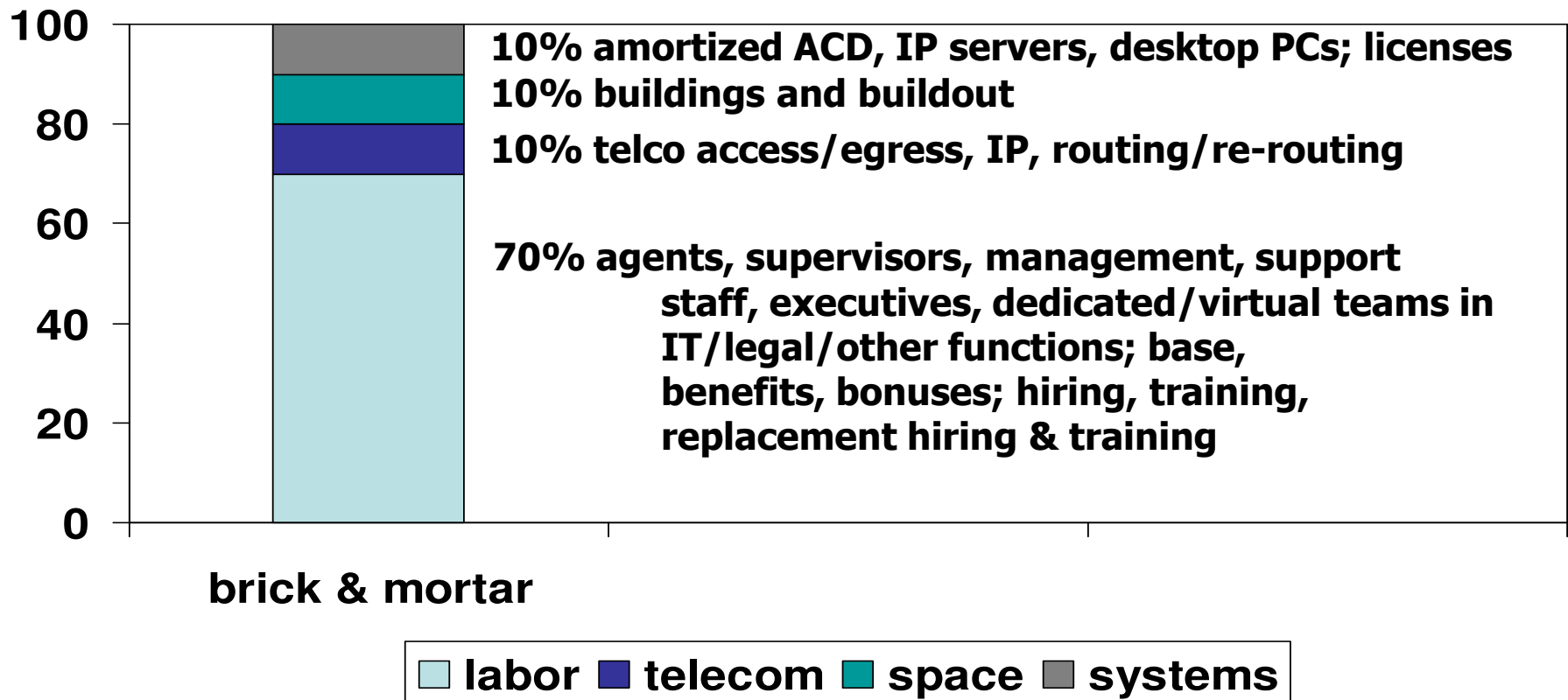
3. Risks experienced after outsourcing offshore

<u>Reasons to outsource</u>	<u>Risks experienced (re reason)</u>
1. Cost savings	38% paid extra for services expected in contracted price
2. Best practice, quality, innovation	31% said vendors became complacent
3. Flexibility, capacity, scalability	Found increased rigidity, especially resisting last minute changes
4. Focus on core strategy	25% decided to bring back in-house
5. Access to high caliber labor	20% found very high turnover + fleeting knowledge
6. Transfer risk to vendor	"often" didn't work
7. Lack of expertise in-house	44% decided to bring back in-house

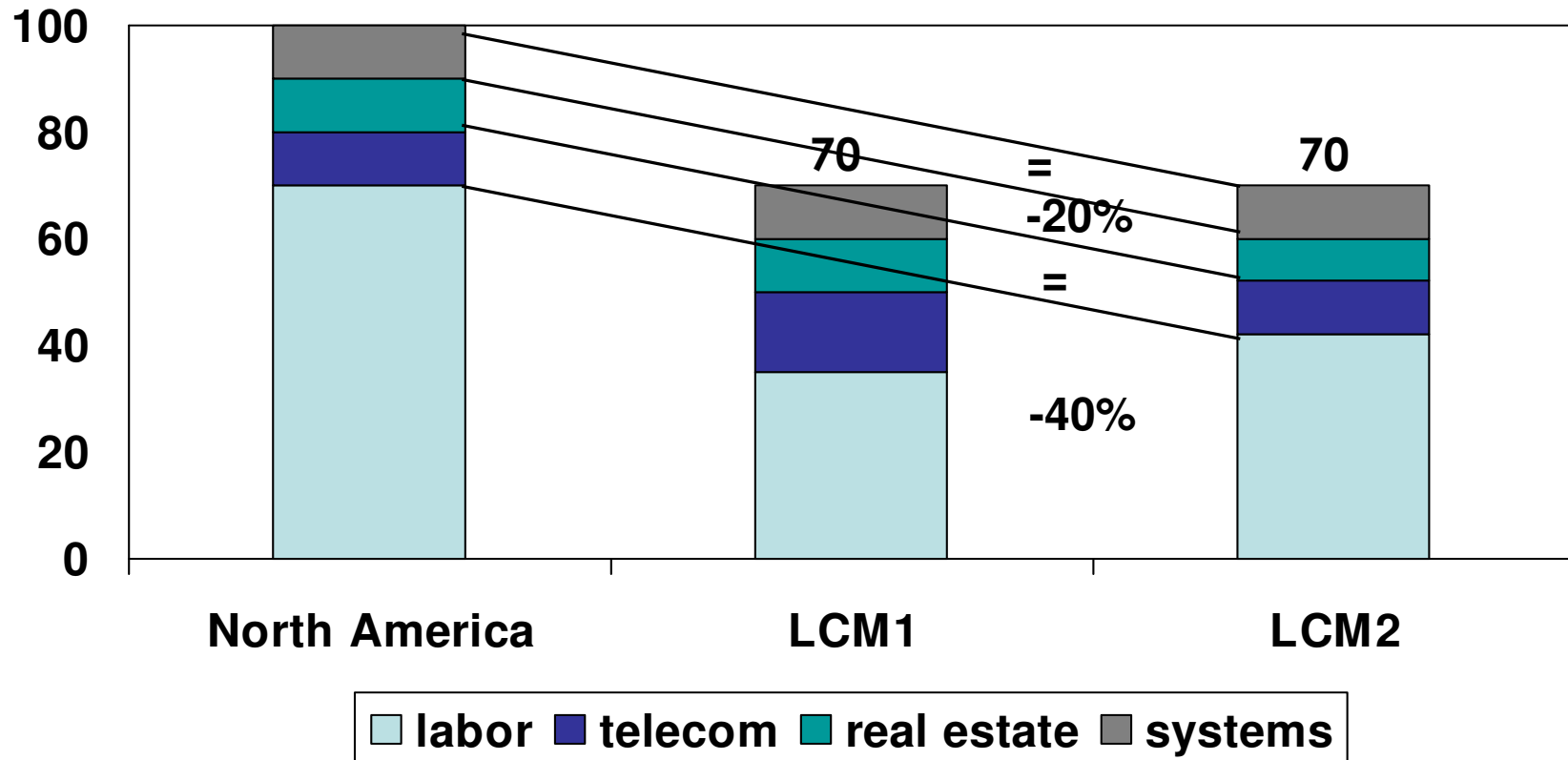
From: Deloitte study Q404
 % from respondents

3. Contact center cost index

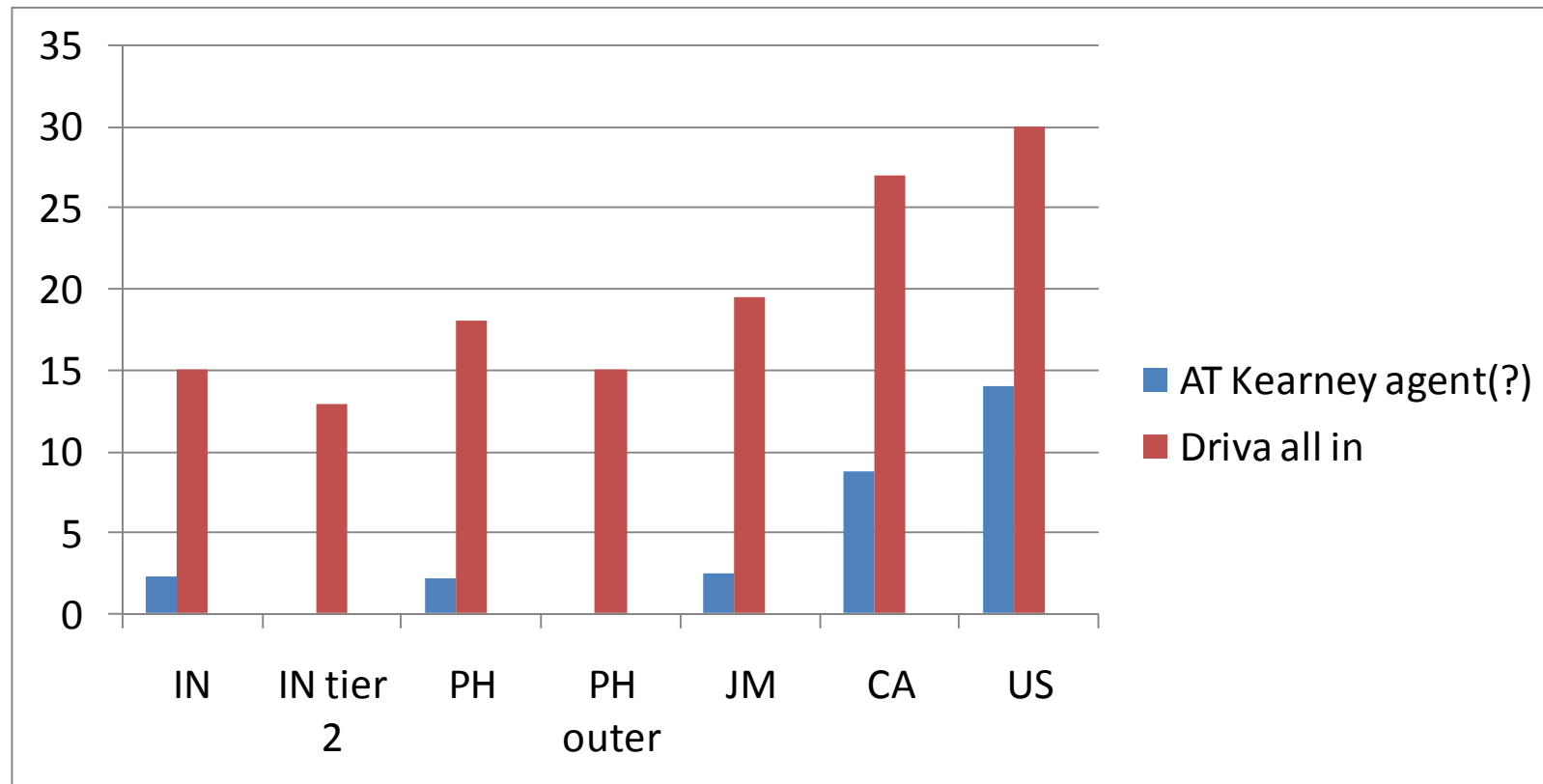
North American brick & mortar operations



3. Cost elements, domestically and offshore two Low Cost Markets



3. Ballpark cost per hour (USD), attrition



Attrition (%/yr)	70	50	110	90	30	60	60	Source:
	100 US day						20 at home	Driva Solutions

3. "Where in the World? Basic options [] = 1/06 data

	<u>Onshore US</u>	<u>Offshore from US</u>
<u>Captive</u>	70% [72%], declining/flat <ul style="list-style-type: none"> • colo with HQ • across time zones • agents at home = only growing segment 	10% [8%], growing <ul style="list-style-type: none"> • linked with regions • follow the sun • India/Philippines/China • sister/parent units
<u>3rd-Party</u>	10% [12%], flat <ul style="list-style-type: none"> • big players • niche players • part of larger BPO 	10% [8%], growing (not so fast) <ul style="list-style-type: none"> • global players • local players • part of larger BPO

3. More and More Options to Consider

	<u>Onshore US</u>	<u>Offshore from US</u>
<u>Captive</u>	<ul style="list-style-type: none"> • agents at home • small towns • hub-and-spoke • “dual shore” 	<ul style="list-style-type: none"> • colo with dev or back office functions • regional service centers • networked middleware • agents at home starting to happen
<u>3rd-Party</u>	<ul style="list-style-type: none"> • agent at home cos. • reciprocal deals • prisons, reservations • rural towns 	<ul style="list-style-type: none"> • emerging countries/cities • “dual shore” • networked middleware • seasonal support • renewed interest in BOT

3. High-level comparisons across selected markets

<u>Element</u>	<u>India (I)</u>	<u>Philippines</u>	<u>US</u>	<u>Caribbean LatAm</u>	<u>Canada</u>
Available Skilled Labor	High	Medium but more challenged in greater Manila	Harder	Limited	Limited
Multi-lingual	Low	Very Limited	Limited	Medium; Spanish in some markets	+French
Telco/ IT	Mixed	High	High	Medium	High
Tech skills, analytical	High esp. top 5 cities	Mixed, but pay more for best	Dropping unless \$\$	Medium	Mixed
Good Cost	High but narrowing	High (> I), but also narrowing	Lower	Medium (> I)	Medium, less so now; nearing parity with US
Quality	Mixed	Mixed	Mixed, but pretty solid	Mixed	High
Voice acceptability	Dropping	Good, but lower for new hires	Good	In some cases very good	Good

3. Four Market Stages of Outsourcing “Readiness”

	<u>Density players</u>	<u>Training regimen</u>	<u>Costs/ attrition rates</u>
Stage 1 = <u>South Africa, Malaysia, China, new India</u>	<1%	weak	unsettled/ 20-30%
Stage 2 = <u>mid-tier India cities, agents at home US, daytime large India</u>	1-3%	by company	low to steady/ 30-45%
Stage 3 = <u>Canada, NZ, Australia, Philippines, rural US towns</u>	3-5%	standards + certifications	steady, rising soon/ 40-70%
Stage 4 = <u>US, UK, HK, large India</u>	>5%	standards + certifications	rising, high/ 60-100+%

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4. Country Risk Analysis

Driva Solutions' Country Risk Analysis

Blends 17 elements for

- Country risk per se
- BPO risk

→ Starting point to consider which country(ies) to explore and/or assign risk to current, planned operations

17 elements (weighted)

Political Risk, Short-Term
 Political Risk, Medium/Long-Term
 Country Risk
 Long-Term Risk Rating
 Marketing Country Risk
 Growth Competitiveness
 World Competitiveness
 Foreign Direct Investment
 Offshore Location Attractiveness
 Labor Force
 Rigidity of Employment
 English Proficiency
 Big Mac PPP Index
 GDP per capita
 Unemployment
 US Travel Warning
 AU Travel Advisories

4. Country Risk Analysis

43 countries profiled

- | | | |
|------------------------|----------------|--------------------------|
| 1. Argentina | 15. Guatemala | 29. Namibia |
| 2. Australia | 16. Honduras | 30. New Zealand |
| 3. Brazil | 17. Hungary | 31. Nicaragua |
| 4. Canada | 18. India | 32. Pakistan |
| 5. Chile | 19. Ireland | 33. Panama |
| 6. China | 20. Jamaica | 34. Philippines |
| 7. Colombia | 21. Kenya | 35. Poland |
| 8. Costa Rica | 22. Lithuania | 36. Romania |
| 9. Czech Republic | 23. Madagascar | 37. South Africa |
| 10. Dominican Republic | 24. Malaysia | 38. Sri Lanka |
| 11. Ecuador | 25. Malta | 39. Tunisia |
| 12. Egypt | 26. Mauritius | 40. Turkey |
| 13. El Salvador | 27. Mexico | 41. Uganda |
| 14. Ghana | 28. Morocco | 42. United Arab Emirates |
| | | 43. Vietnam |

4. Country Risk Analysis

top, bottom 5 from 43 countries profiled

Country Risk

Top 5 countries

Australia	80
Ireland	99
Canada	100
New Zealand	115
Malaysia	119

Bottom 5 countries

Argentina	382
Honduras	462
Madagascar	518
Pakistan	521
Nicaragua	538

BPO Risk









































Top 5 countries

China	62
Czech Republic	82
Malaysia	89
Uganda	94
Dominican Republic	97

Bottom 5 countries




United Arab Emirates	155
Turkey	156
Morocco	172
Madagascar	175
Panama	183

4. "Our Recommendation – Location" client project summer 2006

Country Region	Language	Quality	Costs	Suitability for Work	US Brand Impact	Recommendation
US						Yes
Canada						Neutral
Mexico						No
Caribbean						Neutral
India						No
Philippines						Yes
Europe						No
Australia						No

30%

70%

Positive	
Negative	
Neutral	

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5. Two sides of the coin

Outsourcing is not good

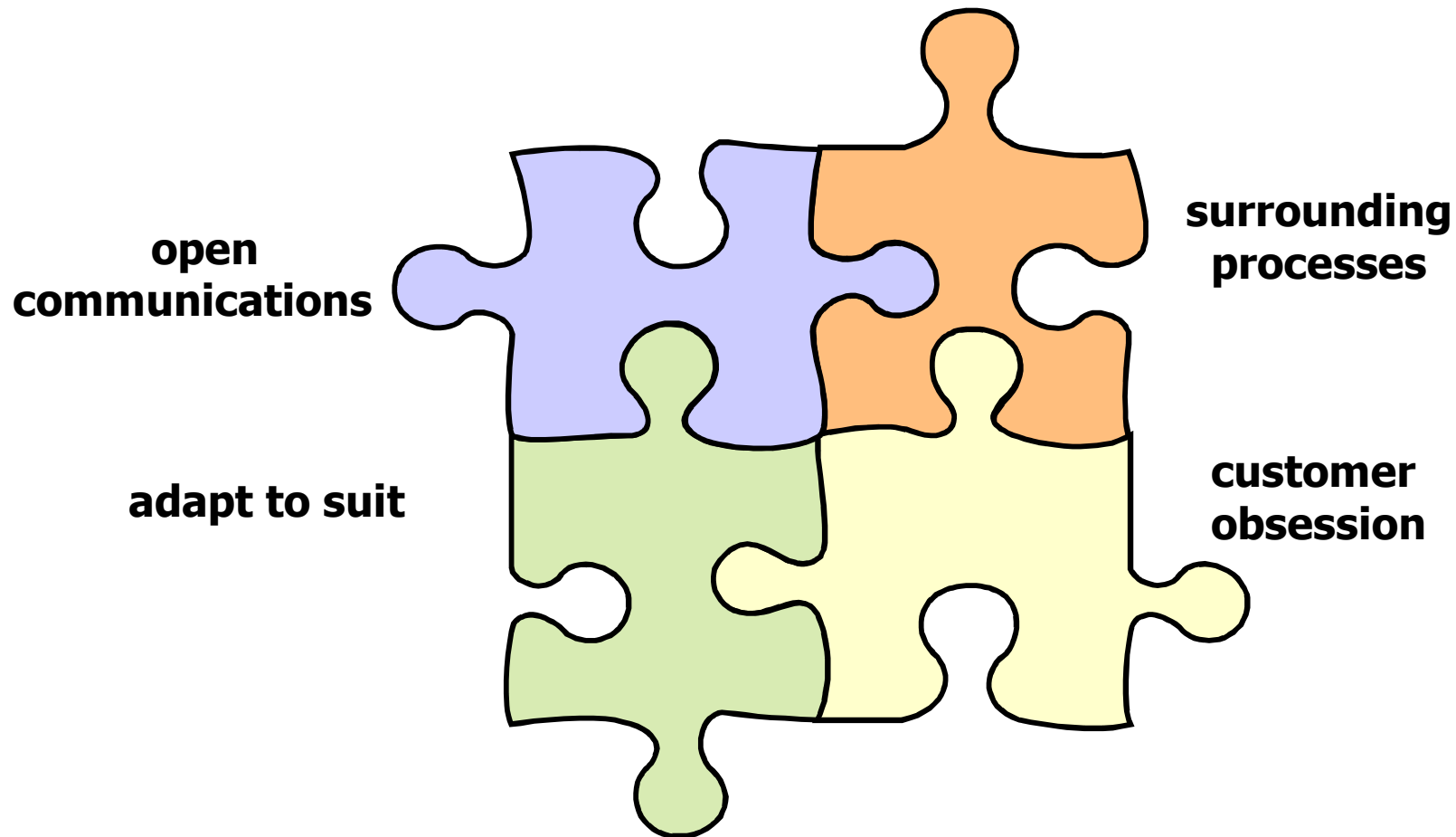
- “Outsourcers Struggling to Keep Workers in the Fold”
- “Actually, We Take That Back”
- “When Offshoring Isn’t a Sure Thing”
- “Unoutsourcing”
- “A Return Home”
- “Sprint Rethinks Outsourcing, Pulls Some Work Back”
- “The Outsourcing Bogeyman”
- “Tide turning against outsourcing”
- “Kodak sues outsourcing firm over its service”

Outsourcing can work for you

- “The Slipper Solution”
- “Nice Work If You Can Get It: Web Sites for At-Home Jobs”
- “Pioneering Captive Centers” (from *Offshore Outsourcing: Business Models, ROI and Best Practices*, Robinson & Kalakota)
- “A Cheaper Alternative to Outsourcing [swapping work]”
- “A viable alternative to offshoring [small towns]”
- “Farming out isn’t always the answer”

5. Select the best partner

building lasting partnerships; putting together the pieces



5. Select the best partner

<u>Key Element</u>	<u>Vendor</u>	<u>Lasting Partner</u>
Open communications	Quarterly business reviews	Daily reports, requests, feedback
Adapt to suit	Standard CRM or other systems	Extension of clients' systems, processes
Surrounding processes	Service levels above all else	Reduce CPX (contacts per driver X) or increase OPC (orders per contact)
Customer obsession	Low cost & speed	Quality, customer loyalty, no snowballs (repeat contacts)

5. The core issues

- “Customer Satisfaction Not a BPO Priority”
 - “How Offshore Outsourcing Affects Customer Satisfaction”
 - “A Penny Saved. A Customer Spurned”
 - “12 Accused of Using Call Center in India to Cheat Citibank Clients”
-
1. balance operating expense, capital costs, and revenues
 2. juggle short-term bottom line with long-term customer loyalty
 3. decide what to outsource, what to keep
 4. select “best-fit” outsourcing partner
 5. craft a solid contract that builds true “win-win”

Thanks!

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