

The New Face of Front-Office Outsourcing

Strategic outsourcing of customer-facing, front-office activities can strengthen customer relationships and generate new growth.

by Britton Manasco Market Intelligence Group

In the post-boom period, we find many corporations in a state of deep reflection and re-examination, much as they were during the downturn of the early 1990s when another “re” – “re-engineering” – came to the fore. But we aren’t looking for “radical” solutions this time. We seem to be weighing our next moves much more carefully. We are asking ourselves: How can we simultaneously reduce costs, create new customer value, and build an enduring competitive advantage?

For many companies, this question inexorably leads to a new set of questions such as: What are our core competencies, what activities are merely peripheral, and how do we maximize the impact of the work we do best?

These are the questions that Jeffrey Immelt, CEO of General Electric, has been asking himself and his colleagues. He concludes that, “At GE, 60 percent of our resources are in the ‘front room’ – customer-facing, growth-driving, manufacturing, selling, and controllership. The other 40 percent of our resources are in the ‘back room’ – supporting as well as compiling and passing information. This will change. Digitized companies in the 21st century will have significantly smaller back rooms with more resources committed to growth and customer success.”

As Immelt’s comments suggest, smart companies will increasingly outsource noncore activities, particularly back-office administrative work, so they can focus on customer growth. However, one should not mistakenly conclude that the trends Immelt attributes to the back room have no parallel implications for the front.

Indeed, emerging trends demonstrate that companies are increasingly exploring the strategic outsourcing of customer-facing, front-office activities as a way to not only reduce costs, but as a means to strengthen customer relationships, generate new growth, and gain access to world-class capabilities.

However, these opportunities are not always obvious. “Companies don’t usually realize the full strategic potential of outsourcing until they’ve outsourced to reduce costs and realize other operational gains,” says Rebecca Scholl, a senior analyst with Gartner. “Once you have been down that path, then you might choose an option that is more strategic in nature. Among the strategic drivers are competitive differentiation, increases in shareholder value, and other gains.”

What seems clear is that future success in strategic outsourcing lies in a careful and intelligent redrawing of conventional boundaries. This is particularly true with regard to the front office. Even as we search for more precise distinctions between what is core and what is peripheral, we are likely to seek more seamless, boundary-spanning connections to external providers of front-office strengths and expertise.

At this point, there’s an extraordinary amount of interest in outsourcing. And while information technology outsourcing (ITO) has been a recognized approach for some time, we are just beginning to see the emergence of business process outsourcing (BPO) as an increasing number of activities are taken on by external service providers. IDC contends that the global BPO market

(including human resources, marketing and sales, engineering, logistics, legal, facility operations, and finance and accounting) will rise from \$712 billion today to \$1.2 trillion by 2006.

In some ways, the term “outsourcing” is an unfortunate one. It’s a loaded word that subtly suggests one is surrendering all responsibility and control to someone outside the organization. That’s a problem for those who would outsource certain customer-facing activities. You can imagine the response from

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| Improve company focus | 55% |
| Reduce and control operating costs | 54% |
| Free resources for other purposes | 38% |
| Gain access to world-class capabilities | 36% |
| Resources not available internally | 25% |
| Reduce time to market | 18% |
| Share risks | 12% |
| Take advantage of offshore capabilities | 12% |

Note: Numbers don't add up to 100% since respondents selected more than one answer

Figure 1 Top Reasons Companies Outsource

Source: The Outsourcing Institute

Britton Manasco is a market strategist with Market Intelligence Group (www.marketintel.net), which provides market analysis, sales support, and thought-leadership marketing solutions to help drive growth in technology markets. You can reach him at 512.415.7936 or BrittonManasco@aol.com.



many executives: Why in the world would we ever do that with our customer relationships? Why would we give an outsourcer control over our central asset – our customers?

However, it's a myth that one surrenders responsibility and control by outsourcing aspects of CRM. The truth is more complex – and more interesting. The truth is that one can actually manage one's customers in a superior fashion by drawing on the capabilities of external partners. One need not surrender responsibility or the ability to assess and ensure performance. And just because one has outsourced a front-office activity doesn't mean one has outsourced the whole front office.

This realization is encouraging several highly recognized companies to outsource key aspects of the CRM process. As they see it, they can divest themselves of certain front-office activities while enhancing the customer's overall experience. Strategic outsourcing enables them to strengthen their relationships with their customers.

While CRM outsourcing remains a young field, the opportunities are tremendous. Many companies have contracted out for customer service and support activities over the years. They've drawn on the talents of marketing, advertising, and public relations firms. They've even relied on external firms to provide outbound selling – or telemarketing – services. Now, companies are beginning to expect much greater professionalism – and far greater capabilities – from the partners they hire to interact with their customers and prospects. As the providers of these outsourced CRM services become more capable and their successes more recognized, expect to see more strategic, front-office outsourcing.

Indeed, outsourcing is increasingly being seen as an effective tool to transform an enterprise – or a key business process. "Traditionally, the outsourcing market focused on the infrastructure, data operations, and cost takeout as primary drivers," says Martin Cole, managing partner for outsourcing and infrastructure delivery at Accenture. "Now, in addition to reducing the cost of operations, enterprises are looking to outsource business areas to achieve greater flexibility and to gain greater ability to respond nimbly."

Putting those ideas to the test, AT&T recently inked an agreement with Accenture to demonstrate the power of front-office outsourcing. The deal, which calls for AT&T to spend \$2.6 billion over five years, is designed to dramatically enhance the performance of AT&T Consumer's long-distance sales and customer care operations. While this "co-sourcing" agreement states that AT&T will remain responsible for strategic direction and requires it to commit its own people to the effort, Accenture is providing new technology development and ongoing management direc-

tion for the customer management operation. Indeed, Accenture is responsible for delivering state-of-the-art technology and methodologies for upgrading customer management skills.

Meanwhile, Nextel Communications is working with IBM Global Services to realize benefits of similar magnitude. Last year, IBM Global Services signed an eight-year, \$1.2 billion agreement designed to enhance the capabilities of Nextel's customer care operations. As part of the outsourcing arrangement, IBM Global Services will partner with TeleTech – a customer care solutions company – to manage Nextel's call centers.

The agreements are expected to reduce Nextel's future costs by more than \$1 billion over the eight-year term (while enhancing its revenues through the deployment of new wireless data

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solutions from IBM). TeleTech, which is now operating Nextel's six customer care centers, provides enhanced capabilities in customer service, sales, technology, operational excellence, and performance management.

Both IBM and Accenture have recently introduced "transformational outsourcing" practices devoted to front-office activities. While such efforts are in the early stages of launch, they represent brand-name efforts to persuade the Fortune 500 and others that they can bring their customer management capabilities, technologies, and talent to world-class levels on an outsourced basis.

Of course, some front-office outsourcing activities are more familiar than others. Michael Corbett, an outsourcing specialist and president of Michael F. Corbett & Associates, Ltd., points out that the call center outsourcing field is well-established and that it continues to expand. He contends that call centers are becoming "multichannel contact centers" and that companies are outsourcing to specialists not only to cut costs but also to gain access to their talent, professionalism, and technical capabilities.

This expertise and professionalism may have encouraged the United States Postal Service to sign a four-year contract (with an additional six one-year renewal options) with Cincinnati-based outsourcer Convergys. The USPS stated that the deal is part of a major initiative to enhance the customer experience while reducing costs. Under the terms of the deal, Convergys contact center agents and managers will support USPS from facilities in Denver and in Orem, Utah. Among the inquiries that will be han-

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dled via phone and Web include questions about specialty stamp products, international mailing, supply orders, advertising, address management, email, and general information.

According to the firm, as a “full domain” BPO contract, Convergys will have full domain control of people, processes, and technology to set up “the optimum environment” to deliver to the USPS and its customers improved service quality, lower costs, and increased customer satisfaction. Additionally, Convergys will integrate its entire suite of contact center technologies, including IVR, advanced speech recognition, knowledge management tools, and automated customer experience surveys.

Market research firm Frost & Sullivan estimates that 13 percent of U.S. companies now outsource call center activities – and it contends that growth will only continue. It forecasts that market for outsourced contact centers in North America alone will rise from \$27.5 billion in 2001 to \$37.2 billion in 2008. Among the top providers of outsourced call center services: APAC; ClientLogic; Convergys; Precision Response Corporation; Sitel; TeleTech; and West Teleservices.

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“All of these companies are moving toward becoming full CRM service providers,” says Frost and Sullivan analyst Katrina Howell. “Simple telemarketing activities are declining, while cross-selling and up-selling activities are on the rise.”

Home Shopping Network offers an interesting example of what can be accomplished using a highly skilled outsourcer to manage customer interactions and drive sales. While HSN has several in-house call centers, it also draws on the capabilities of Fort Lauderdale, Florida-based Precision Response Corp. to manage incoming calls generated by the popular cable television shopping network. The outsourcer gives HSN greater flexibility with regard to handling calls during periods of peak volume. Moreover, PRC agents are highly trained and smartly compensated – capable of handling calls, up-selling, and cross-selling as effectively as HSN’s internal agents, says Will Keller, senior vice president of off-air sales for HSN. “I don’t distinguish between our own centers and PRC’s centers when developing sales strategies,” he says. “Their skillset is the same.”

Indeed, their skillset is impressive. Precision Response has helped the TV-shopping channel increase the annual revenue related to cross- and up-sales from \$9 million to \$71 million during the last three years. When a viewer calls in to purchase a blouse, for instance, it is often an excellent opportunity to offer matching pants or a skirt. Recognizing the potential, the entire operation has shifted from a focus on the number of calls handled per hour to overall sales performance and customer loyalty.

Now, 99 percent of all agents are upselling and cross-selling. This demonstrates the opportunity to seamlessly and consistently provide powerful CRM services – even when those services are handled on an outsourced basis.

Central to this movement is the growing technological capabilities of outsourcers. One advantage associated with outsourcing is that it can provide immediate access to some of the world’s leading CRM technologies. Contact center service providers invest in all the best CRM technology and leverage it across a wide base of clients. This enables them to become technically proficient with customer management software, databases, and the integration of channels such as phone, email, and electronic chat. Other outsourcers are specializing in sophisticated marketing technologies, capabilities, and talent.

Triad Hospitals, Inc., which operates 48 facilities throughout the United States, recently brought in Denver-based Seurat Co. to provide “precision marketing outsourcing” services to strengthen the company’s customer outreach efforts. Through a business process outsourcing model and performance-based compensation

structure, Seurat provides an array of technology intensive marketing services, including managed analytics, customer profile management, campaign testing and management, and contact center optimization. For Triad, Seurat now manages marketing campaigns for individual hospitals as well as “shared” campaigns

for multiple facilities. Triad states that these efforts are driving admissions upward, as its growth figures clearly demonstrate.

OgilvyOne, a recognized interactive marketing agency to Fortune 500 companies, is relying on the outsourced marketing capabilities of Charlotte, North Carolina-based Quaero to strengthen its overall service offering. Quaero recently managed the development of a customer marketing database for an Ogilvy client engaged in customer acquisition and management of a customer loyalty program.

Quaero, through its Springboard outsourcing solution, is providing an array of database management, analytics, predictive-modeling, and reporting capabilities. This enables companies to gain access to leading customer analysis and database marketing expertise without having to take on the technical, organizational, and financial challenges associated with building such sophisticated capabilities in-house. Mark Cicatello, director of marketing technologies at OgilvyOne, said that Quaero has provided “valuable insight as well as technical expertise in the design and implementation of customer databases.” Quaero, he explained, is enabling Ogilvy to “easily access customer response



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behavior and provide real-time, in-depth results and ROI analysis” for its clients.

Still other companies are relying not on service providers but on hosted CRM software, sparing themselves the challenge of implementing the systems onsite. While many of the leading CRM vendors such as Microsoft, Oracle, PeopleSoft, SAP, and Siebel now provide hosted versions of their software, perhaps one of the most outspoken proponents of application outsourcing is Salesforce.com.

Garrett Aviation Services, a provider of service, maintenance, and custom refurbishment for corporate aircrafts, recently chose the Web-based solution from Salesforce.com to enhance its customer service and response times. Garrett claims to have experienced significant results across all departments at its 12 service centers. Within one year of use, Garrett expects: a 60 per-

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cent increase in agent productivity by making complete customer data and past resolution histories from across all data centers available in real time to representatives; a 40 percent reduction in the amount of time spent on inquiries and case resolutions, dramatically impacting customer satisfaction and service levels; and an ability to identify \$1 million to \$5 million in up-sell/cross-sell opportunities every month.

Beyond the technologies now available, one can expect front-office outsourcing and other BPO activities to get an even more important boost from the emergence of a new class of technology, Web services. By smartly integrating applications, systems, and processes via the Internet, Web services stand to enable companies to rapidly and productively draw on the capabilities of all sorts of service providers. At this point, the trend is still very much in a stage of early adoption as companies struggle over the challenge of technical standard-setting. “Web services hasn’t yet really addressed business process needs,” says Gartner’s Scholl. “But

when it does that, it will enable companies to buy business processes as a service or utility in a shared environment.”

The possibilities will require some imaginative thinking and entrepreneurial effort. While there are certainly some interesting initiatives under way now, the grander potential for strategically outsourcing front-office activity may lie a few years out.

Right now, the focus of business process outsourcing remains very much cost-driven, with a keen focus on operational efficiencies. Companies are not necessarily focused on doing things differently or better. They are mostly concerned with doing what they already do less expensively. That is one of the drivers of the current wave of offshore outsourcing – moving call center activities to countries such as Ireland and India. While it’s clear that companies can, in many cases, obtain better quality offshore (in addition to lower cost),

the real issue is whether one is assessing the entire value equation associated with outsourcing. Whether or not one ultimately decides to go offshore is beside the point.

“One of the greatest risks facing companies that are contemplating outsourcing is that they will only consider the

opportunity to drive out costs,” says Peter Bendor-Samuel, CEO of Dallas-based Everest Group, an outsourcing advisory firm. Companies, he adds, also should assess how outsourcing can enhance “the quality of the customer interaction and the growth of the customer relationship.”

If companies take the time to intelligently map out the activities that are core and those that are merely peripheral, they may discover new opportunities to enhance the performance of the front office. Beyond that, they may even discover they can draw on the talents of world-class outsourcers to provide service-levels (and performance-based accountability) that could not have been obtained otherwise. Whether an activity is performed “inside” or “outside” may even become increasingly irrelevant in the coming era of collaborative commerce and blurred organizational boundaries.

What really matters is the enduring loyalty of a valuable customer. Strategic outsourcing, as a growing number of companies are now learning, is one way to win it. ■

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