Everest Group
RESEARCH

Achieving Maximum BPO Value: How Smart Buyers Structure Contact Center Relationships

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Introduction

The global third-party BPO industry is valued at approximately US$150 billion today. The industry and its services have evolved significantly over the years. While it began largely as a cost optimization play focused on non-core business processes, BPO engagements have fundamentally changed over the past several years. The scope of BPO engagements has expanded to encompass the entire business process value chain, supporting a wide variety of objectives including agility, flexibility, compliance, and improved business outcomes, among others.

The dynamic nature of the industry has had an impact on the buyer-service provider relationship as well. In the past, buyers focused on multiple service provider relationships for risk mitigation and cost optimization purposes. With the focus moving towards business outcomes, buyers are now investing more time and effort on individual relationships. As a result, there are fewer but more meaningful BPO partnerships that also succeed in capturing better business value. Consequently, this also means that not all contracts are successfully renewed, which has a direct implication on both service providers (loss of revenue) and buyers (transition costs). Therefore, it is imperative for both parties to work together proactively on nurturing their relationship in order to avoid any value leakage. Buyer-supplier engagement must be given as much focus as an employer gives to engaging the employee for better attrition management, as this would be the first step towards achieving value-driven and differentiated service. This buyer-supplier engagement needs to be managed right from the beginning of the relationship and at all stages, and not be reserved only for managing the frontline.

This paper draws insights from Everest Group's existing research and combines it with recent service provider and buyer interactions. The goal of this paper is to study some examples of value-driven relationships to answer the following questions:

- What is driving the trend towards closer and more complex buyer-service provider relationships in the BPO space?

- How are these engaged / more-valued relationships different from the traditional client-supplier relationships?

- What benefits are achieved through a more engaged outsourcing model?

- What steps should service providers and buyers take to foster an engaged relationship?

> Engaged outsourcing relationships do not just happen – they are envisioned, intentionally nurtured, and diligently built.

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The Evolving Outsourcing Relationship

Key BPO Terms:
CCO - Contact Center Outsourcing
FAO - Finance and Accounting Outsourcing
PO - Procurement Outsourcing
HRO - Human Resource Outsourcing

When the focus was more on cost reduction and risk mitigation, multi-vendor strategies worked well. But as the buyer focus now migrates towards value creation, having too many relationships may prove to be counter-productive. Smaller engagements tend to have lesser strategic value and require too much time and effort to manage. As a result, buyers are now looking to focus on fewer but more meaningful relationships.

This changing trend towards portfolio consolidation has led to higher rates of non-renewals than in the previous years. Historically, only 15% of the end-of-term contracts were not renewed in non-voice segments (FAO, PO, and HRO), while CCO (the largest BPO segment at US$70-75 billion in 2014) recorded a higher termination rate of 25-30%. However, as is evident from Exhibit 1, all segments have experienced higher termination rates in the past two years. The effect is most pronounced for CCO and FAO, with terminations in HRO also being marginally higher than historical data.
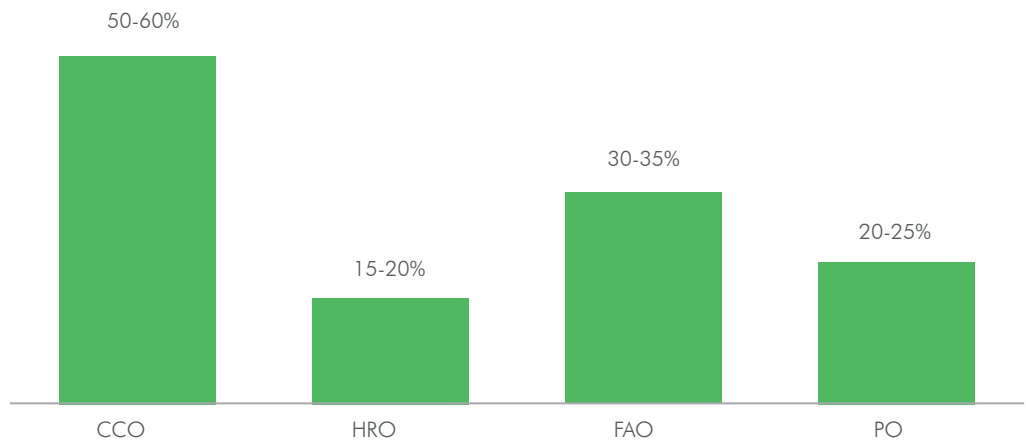
EXHIBIT 1

Higher termination rates over last two years

Source: Everest Group

Contract non-renewals across BPO segments
Percentage of end-of-term contracts terminated; 2013-2014

A key question arises - why are some CCO vendors winning when clearly, others are not? With this shift towards consolidation, service providers are presented with the unique opportunity to further strengthen their relationships with their buyers. As per our observation, when contracts are renewed, they typically involve an increase in scope of services by adding more geographies, lines of business, or processes – often moving from core operational services to include more judgment-intensive, value-added services involving, for example, new technology, automation, and/or analytics.

This heightened client expectation requires service providers to continuously work on enhancing their value proposition in order to remain relevant. From innovation, to employee engagement, to open communications, and more, buyers and service providers must agree on what truly drives value in the relationship.

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Six Key Factors Impacting CCO Relationship Value

Based on Everest Group research, as well as buyer interviews, we have identified six key factors that buyers consider when evaluating the relative value of different CCO relationships:

EXHIBIT 2

Six key factors impacting the CCO relationship value

Source: Everest Group

Communication strategy		Executive relationship building
Alignment with business objectives	Factors impacting relationship value	Customer experience innovation
Service quality		Employee engagement

1. **Communication strategy:** The lack of a proper communication strategy has been the most frequently voiced complaint among buyers during our interactions and rightly so. In today's fast-paced environment, buyers are looking to their service providers to improve the speed and consistency of communication, especially when it comes to identifying and flagging issues. Buyers should work with service providers to develop straightforward information sharing practices. Having a defined buyer-supplier engagement platform that includes regular health checks, pulse checks, business reviews, and remediation plans can go a long way in building and sustaining relationship value

2. **Executive relationship building:** Executive service provider presence, not just at the start of the relationship, but throughout the lifecycle of the engagement, offers assurance of the service provider's intent to invest in the partnership. In scenarios where there is a lack of executive engagement, buyers have found it hard to escalate and resolve issues in a satisfactory manner, leading to stress in relationships. Buyers should proactively communicate their interest in high-level relationships and set the expectation that they will seek out and monitor the participation of senior-level practitioners

3. **Customer experience innovation:** Customer experience management is rapidly changing. High customer expectations are leading CCO buyers to challenge their incumbent providers to go "beyond the obvious," especially after the first three years of a relationship. Buyers must encourage service providers to challenge the status quo and play a more active role in advancing their business objectives. At the same time, buyer organizations must accept the role that service providers play. As service providers are creating innovative solutions that impact things such as end-customer engagement, brand value, and likelihood to recommend, buyers must step up to commit their organization to the changes necessary to adopt these solutions

> Engagement programs can play a significant role in buyer-service provider relationships. Case in point for one buyer-supplier partnership – when agent engagement increased by 12%, attrition fell by 7% and CSAT increased by 13.6%.
>
> **– BPO Client Relationship Manager**

4. **Employee engagement:** Buyers should seek out service providers that have a robust framework in place for engaging the staff assigned to their account. Often, this goes beyond salary, and involves making sure that the service provider's employees are supported on both personal and professional levels. These programs could include added benefits, development opportunities, corporate social responsibility activities, and more. Creating a culture where the provider's staff feels that they are part of the buyer's organization and have a vested interest in their mutual success can go a long way in creating engaged agents. In the end, tenured and engaged employees are motivated to provide the best customer and brand experience

5. **Quality of service (QoS):** Most buyers have experienced some level of transition-stress when beginning a new service provider relationship. From an operational perspective, this is one of the most challenging times. However, shortcomings in the quality of ongoing and established service delivery can be a death knell for the relationship. Buyers should look for the provider's commitment to QoS measures that drive relevancy and insight into its business to ensure optimal performance

6. **Alignment with business objectives:** The process of aligning with mutual objectives is a two-way street. Service providers must collaborate to support day-to-day operations while also developing an understanding of the client's overall strategic business direction. For their part, buyers will need to proactively plan to educate their CCO partners on their objectives, such as business expansion, process refinement, and/or areas of continuous improvement. This business planning dynamic can become a core element of an engaged BPO relationship and ensure the alignment needed to identify and achieve agreed upon goals

## Success-Factors for an Engaged CCO Relationship

All BPO segments, including CCO, present a highly competitive landscape with new players entering, mergers/acquisitions prevalent, and established players striving to find growth platforms. This dynamic environment emphasizes the need for buyers and service providers to collaboratively manage their relationships within a framework that targets mutually beneficial outcomes. For many, this marks a departure from a more traditional client-service provider model.

Based on research involving multiple interactions with service providers and buyers, we have identified the following success factors for an engaged BPO relationship.

EXHIBIT 3

Success factors for an engaged BPO relationship

Source: Everest Group

Success factors for an engaged BPO relationship
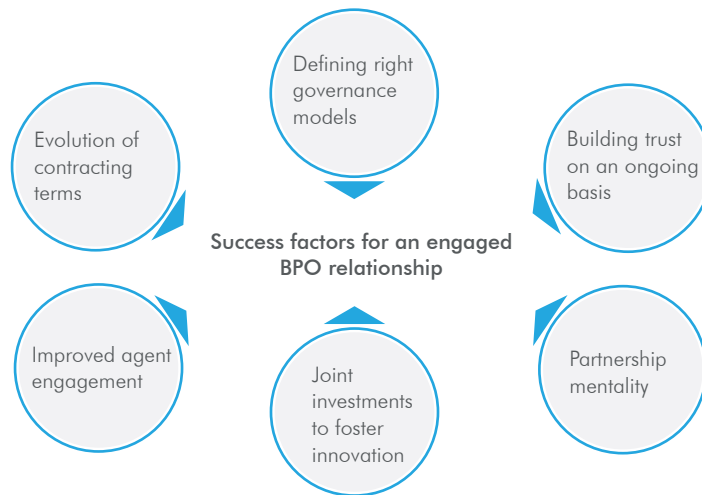
- **Defining governance models that support a working partnership:** Buyers and service providers should employ a governance model that ensures responsibility and accountability across the board – from the operational level to the executive level. Everest Group has observed that a three-tier relationship governance model often works best:

  — Program office – This foundational layer includes delivery leads and operational business owners who provide delivery oversight along with monitoring, administration, change management, problem management, and metrics & reporting

  — Management oversight – The middle layer includes relationship managers from both the buyer and service provider side who provide planning & strategy, escalation management, and overall communication

  — Executive steering committee – This senior layer is composed of both buyer and service provider leadership that reviews the overall relationship and provides direction for the future

"We have regular quarterly touch points at executive levels not only to discuss the operational performance but also to assess the overall health of the relationship and identify remediation steps."

– VP Strategic Initiatives, Financial Services Company

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EXHIBIT 4

Three-tier relationship governance model and roles

Source: Everest Group

"Our service provider is our partner. They know what is important for us and work with us to identify how they will help achieve and meet our goals. We have seen a number of their people come through with a clear understanding of our interests, which is great!"

— Delivery Manager, Financial Services firm

"Our outsourcing relationship started more than 10 years ago with only customer service work, but now includes sales support as well. By managing KPIs without losing scope of the work, and putting people in the right place, immense value has been delivered."

— Director Procurement, Telecom Company

Service delivery

1. Program office
   - Monitoring
   - Administration
   - Change management
   - Problem management
   - Metrics and reporting

2. Management oversight
   - Planning and strategy
   - Escalation management
   - Change control
   - Communication

3. Executive steering committee

- **Building trust on an ongoing basis:** While the governance structure lays the foundation of a successful and healthy relationship, it needs to be nurtured on a regular basis. We have observed the following successful techniques used to promote an engaged buyer-supplier relationship:

  - Regular meeting cadence - Scheduling ongoing relationship "health checks" to discuss current program status and identify remediation plans that tackle key issues

  - Building bonds across buyer and service provider teams - Organizing informal social events, using social media tools and maintaining open and, preferably, face-to-face communication channels help teams to understand each other better and build confidence over time

Building the trust in the relationship stimulates the ongoing idea exchange and the opportunity to identify gaps, create process improvement initiatives and evaluate the potential for innovation.

- **Partnership mentality that supports intimate collaboration:** Most engagements start with service providers focusing on transactional processes that allow enterprise employees to retain more strategic initiatives. In a healthy relationship, the buyer considers the service provider to be an extension of their organization and gradually moves toward greater integration and value-sharing. This partnership model has its impact on two distinct facets of the relationship:

  - Scope of work delivered - Over time, as the service provider builds familiarity with the processes and systems within the buyer organization and the buyer's confidence in the service provider's ability to deliver grows, the service provider starts playing a key role in supporting judgment-intensive work

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— Sharing data and system access – A clear delineation of roles and responsibilities, based on different data categories, between buyer and service provider helps both sides maintain their focus and ensure that their efforts are aligned to their core objectives. In a collaborative work atmosphere, buyers are comfortable sharing restricted data with service provider agents, but continue to own the customer data. In turn, the service provider needs to own the operational data, with the buyer engaging at the highest level to ensure that process and performance are aligned to objectives

By promoting this partnership mentality amongst their employees, service providers and buyers are able to initiate and support an intimate and collaborative environment and generate greater value from the relationship.

- **Joint investments that foster innovation:** With the growing maturity of the CCO industry, delivering on SLAs and contractual terms is considered a bare minimum requirement. In fact, buyers take it for granted that incremental innovation will be delivered in outsourcing relationships. In more mature and engaged relationships, service providers have been able to deliver radical innovation. Having said that, innovation is one of the key challenges within CCO relationships and it is, therefore, essential to understand the basic tenets that need to be observed in order to foster innovation within an outsourcing construct:

  — Formal innovation planning process - Service providers and buyers must define responsibilities of innovation managers on either side as well as make innovation an agenda point of regular status meetings to discuss, plan, assess, and control new innovation initiatives

  — Contracts, incentives, and pricing models - Innovation projects are often considered to be beyond the scope of the existing engagement and are not planned for at the time of contracting. However, successful innovation often comes from advanced planning. In our view, contracts designed with incentives and pricing models that encourage innovation help set expectations for the service provider and help clients budget for the necessary investments. These must be planned in advance by building appropriate pricing and incentive models to help initiate and maintain them

Beyond the contractual nuances mentioned above, both parties must realize that innovation can only be nurtured in a collaborative environment where both service provider and buyer have a strong basis of trust in their partnership.

- **Improved agent engagement:** Engaged agents lead to happy customers and more value to the buyer. This is a two-step process – firstly, calibrating agent engagement levels and secondly, providing agents a sense of ownership:

  — Agent engagement-level calibration – Service providers should set up measures to understand team engagement and disengagement drivers. They should use these inputs to identify areas of opportunity and influence for the agents and focus on continuous improvement
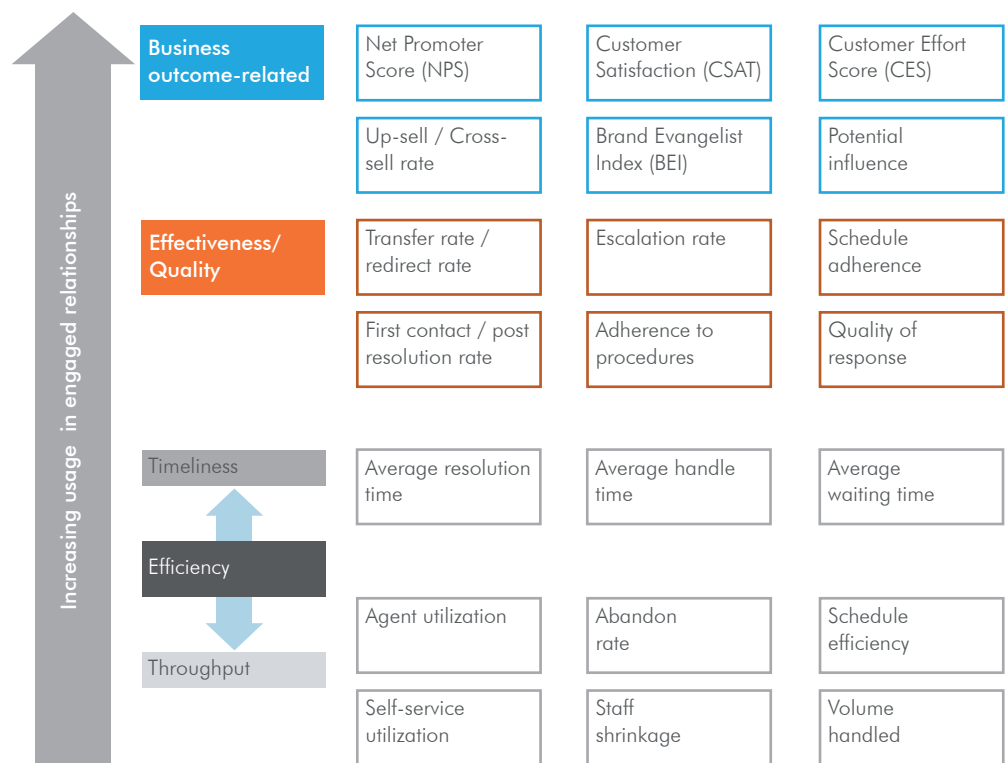
> "Having managed our inbound sales operations for over two years, our incumbent provider conducted a detailed study to critically review the current process (on their insistence). As a result of this study, a custom-designed customer service training process was implemented globally, which enhanced sales flow as well as reduced operation costs."
> **– Head of Sales, Retail Company**

> "We have witnessed higher agent engagement and lower attrition after implementing a multi-media communications campaign that allows agents to quickly see their goals and progress. Additionally, providing rewards and recognition on a monthly and quarterly basis is a huge motivator for the team."
> **– Delivery Lead, BPO provider**

— Voice of the agent feedback mechanism – In order to build that sense of ownership within agents, service providers and buyers must create a mechanism to capture agents' feedback and suggestions to improve product, process, and agent toolsets. This will, in turn create a momentum that encourages more active agent engagement

- **Evolution of contracting terms:** With increasing comfort and understanding of each other's expectations and abilities, most, if not all, engaged BPO relationships witness expansion of engagement scope across scale, lines of business, complexity of process, and geographies. An expansion in scope obviously signals a mutually beneficial, healthy, and growing relationship. Such a relationship is also characterized by a higher focus on business outcomes rather than just on operational ones. In order to support this renewed focus and to ensure a performance assessment that is aligned with the objectives of the engagement, the traditional SLAs are either supplemented or changed to SLAs that target more business outcome-oriented objectives such as sales conversion, CSAT, likelihood to recommend, and/or NPS

EXHIBIT 5

Increasing use of metrics tied to business outcomes

Source: Everest Group

While efficiency- and effectiveness-related metrics continue to be most prevalent, use of business outcome-related metrics is increasing

Increasing usage in engaged relationships				
Business outcome-related	Net Promoter Score (NPS)	Customer Satisfaction (CSAT)	Customer Effort Score (CES)
	Up-sell / Cross-sell rate	Brand Evangelist Index (BEI)	Potential influence
Effectiveness/ Quality	Transfer rate / redirect rate	Escalation rate	Schedule adherence
	First contact / post resolution rate	Adherence to procedures	Quality of response
Timeliness	Average resolution time	Average handle time	Average waiting time
Efficiency			
Throughput	Agent utilization	Abandon rate	Schedule efficiency
	Self-service utilization	Staff shrinkage	Volume handled

Conclusion

Engaged outsourcing relationships do not just happen – they are envisioned, intentionally nurtured, and diligently built. This study shows that while significant effort and planning goes into building such a relationship, the result is a more effective and value-driven service model. To achieve these results, the CCO buyer is very much part of the solution mix, bringing to the table things such as a partnership mentality, leadership involvement & commitment, organizational alignment, and investments of people & resources. For its part, the service provider will need to both lead and follow the client, sometimes pushing the envelope with new ideas and innovations, other times investing heavily in the client's chosen business agenda.

Consequently, by moving away from a strict vendor-buyer relationship, this more engaged model opens up the opportunity for the CCO buyer and service provider to jointly target mutually beneficial outcomes. Like everything else in life, big gains come with putting in the effort – how ready is your organization to take on this challenge?

About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com and research.everestgrp.com.

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