

Offshoring: Risks and Benefits

PRI

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Key factors to consider as you make decisions about offshoring.



Customer care is a global undertaking. If your customers are located throughout the world, it makes sense, in theory, to tap into labor forces that are also located throughout the world.

But given the economic, political and social complexities that site selection entails, a theory isn't enough to inform decisions about offshoring. In this article, we outline factors to consider as you choose new or additional locations from where you serve customers.

One question to ask is whether wages are accurate indicators of labor costs for prospective offshore call center sites.

King White, founder and president of the Dallas-based consultancy Site Selection Group, says that benefits can account for different percentages of agents' overall compensation depending on where agents are located. He explains that on average, benefits for American agents, including life, health and disability insurance, represent 30 percent of their entire compensation. (The U.S. Bureau of Labor Statistics, whose data about compensation and benefits for American workers is current as of March 2007, corroborates White's estimate.)

White finds that Canadian workers typically receive between 25 percent and 28 percent of their compensation as benefits, a ratio close to that for American workers. One possible explanation for the slightly lower ratio of benefits to compensation in Canada, compared to the ratio for workers in the U.S., involves health care, which represents the largest portion of benefits for American workers.

Among the reasons that benefits for Canadian workers can be lower than those for American workers is that Canadians typically pay less for health care than Americans do. According to data from the World Health Organization and the World Bank, in 2004, Canadians paid 15 percent of their health care expenses, or 1.6 percent of their per-capita income, out of pocket. That same year, Americans paid a slightly lower percentage, 13 percent, of their health care expenses, but they paid a slightly higher percentage of their per-capita income, 3.5 percent, out of pocket.

Although workers in countries such as India and the Philippines have much lower average wages than workers in the U.S. and Canada, companies that locate call centers offshore have to consider trade-offs with regard to other aspects of running call centers.

Among these trade-offs are the higher costs of benefits like health care, relative to wages. Because India and the Philippines have established reputations as places with low wages and well-educated workforces, their respective labor markets have also become more saturated. White observes that annual attrition among call center agents in the Philippines, for instance, tends to fall between 30 percent and 50 percent, usual at the lower end of this range.

High demand for workers brings about higher labor costs. White estimates that benefits account for half of labor costs overseas, and he observes that it is the benefits, more than wages, that can make call centers attractive places for overseas agents to work.

Health care benefits in offshore locations like India and in the Philippines matter especially because they offset what would otherwise be high out-of-pocket costs for workers. For example, in 2004, Filipinos paid 47 percent of their health care costs out of pocket; for Indians, that percentage was 78 percent. If you also consider services that many North Americans take for granted, such as the availability of transportation and from their employers, then the role of benefits in attracting workers in India and in the Philippines becomes all the more significant.

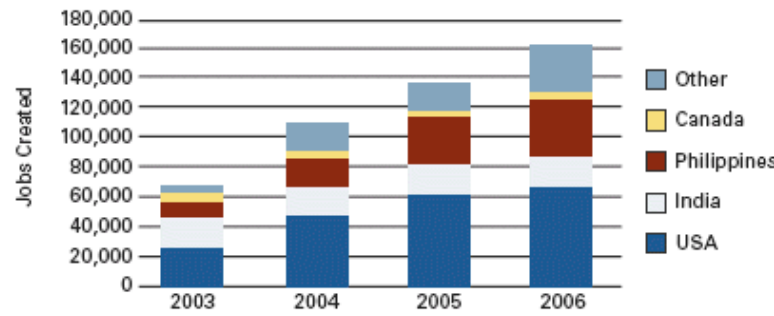
"The benefits are what you have to do to be more competitive," says White.

Although labor costs vary from location to location, White finds that the average worldwide cost of accommodating call center agents, if we factor in expenses for real estate, furniture and equipment, typically remains consistent at around \$10,000 per seat.

It's Not the Country; It's the Community

Just as costs per call incompletely represent the value of a conversation, average wages incompletely represent the value of a region's workforce. Averages and aggregates can be useful for describing broad trends concerning labor costs in a given region, but they're no substitute for in-depth research.

As White explains, offshore regions comprise different metropolitan areas with distinct types of workforces, cultures and economic conditions. What matters, as White puts it, is "not the country; it's the location within the country."

Figure 1. Global Call Center Absorption

	2003	2004	2005	2006
Number of New Openings and Expansions	234	264	360	370
Number of New Jobs Created	76,421	125,318	152,998	179,622
Number of Closures and Downsized Operations	119	199	125	130
Number of Jobs Displaced	29,825	60,677	27,129	34,522

Research refers to centers with approximately 100 seats and greater
 Source: Site Selection Group 2003, 2004, 2005 and 2006 Call Center Absorption Reports

From 2003 through 2006, the U.S. and the Philippines have been the top two sources of new call center jobs, according to the consultancy Site Selection Group.

"The key thing is to understand the communities within the metropolitan areas," he says, citing the example of India, which he views as a combination of 15 such areas.

What else should companies consider as they evaluate potential costs and benefits of offshoring? Despite the overall downturn in the real estate market in the U.S., White sees a scarcity of available office space in leading offshore call center regions.

"Real estate costs in India and the Philippines have skyrocketed," he says. "In the Philippines, almost every project we look at is a build-to-suit. India has the same thing going on. It's putting a strain on smaller companies that lack capital."

Based on trends he has observed during the past four years (see Figure 1), White concludes that "now the U.S. is the preferred location" for call centers. In the absence of a significant economic downturn in the U.S., White finds that among American companies, "there's nothing pushing anybody to take a risk" on previously untapped offshore locations, although he does see European businesses offshoring customer support to South Africa and other African countries.

White's observation raises a fundamental question: What are the top priorities for American companies that are deciding where or if to maintain call centers offshore?

Russ Reynolds, who recently served as vice president of customer support with Xerox, and who now runs a consultancy in the Dallas area, says that he has "had the opportunity to practically circle the globe." More than three years ago, he visited a variety of call center sites, including those in India, the Philippines and the Caribbean, to find additional locations from where Xerox would support equipment, such as desk-side printers, for homes and small businesses. Reynolds' aim was to identify sites from where agents could augment this type of support which Xerox already provided, and continues to provide, with a team of between 325 and 375 agents located in Canada.

During his travels, Reynolds drew upon his own experience as a customer in evaluating prospective locations. "As a consumer myself, I could really care less about accents," he says, recognizing that customers generally pay little attention to agents' accents when they're pleased with their service.

Yet he encountered offshore call centers where agents primarily received training on how to establish cultural affinity with American customer. Reynolds acknowledges that familiarity with American TV shows and sports may be useful for enabling offshore agents to build rapport with those who call them. But he also believes that there is no substitute for enabling agents to develop essential skills, such as "how to get things done without transfers."



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Another challenge Reynolds considered was ensuring that agents received training specifically about Xerox's products and about how to assist customers with finding the resources they needed within Xerox's organization. If Xerox was going to collaborate with an outsourcer, wherever was located, Reynolds couldn't assume, as was the case with agents within Xerox, that they would be "picking up knowledge from their peers

Precisely because he wanted Xerox to assure customers "a common customer experience," he sought an outsourcer where agents would remain in their jobs long enough to acquire knowledge customers expected them to have. Yet he has found that among some of the offshore locations he's visited, "there's a tendency to accept turnover as the norm."

For these reasons, Xerox chose to outsource a portion of its customer support to e-Services Group International, where 175 agents in Montego Bay, Jamaica, and on the island of St. Lucia assist customers with printers for homes and small businesses. (The total number of agents, including agents in Halifax and in Saint John in Canada, who serve these customers currently ranges between 500 and 550.)

The single-digit annual rate of turnover among agents with e-Services Group addressed one of Reynolds' concerns; he says it's the lowest turnover rate he's seen. He attributes the turnover rate to the circumstance that, for workers in the Caribbean, a position with a call center is "one of the most desirable jobs there." To ensure that agents with the outsourcer are sufficiently knowledgeable about Xerox and the products for which the agents provide support, Xerox has extended its training period for new agents, which is usually four weeks, to six.

The outsourcer's collaboration with Xerox during Hurricane Dean exemplifies how businesses sustain their commitments to service in difficult times. According to the National Weather Service, the storm passed St. Lucia on August 17th and the southern coast of Jamaica two days later. Darrell Turley, Xerox's partner relationship manager, says that before the hurricane reached either island, "we began to immediately plan which calls would go to which centers." He recalls that during the storm, Xerox and the outsourcer had enough agents "on the phones to respond to [customers] quickly." Within two days after the hurricane passed Jamaica, says Turley, "we were totally operational" in both Montego Bay and on St. Lucia.

What can call centers learn from Xerox's experience? A key lesson is that the availability of a region's workforce matters far more than wages alone. Ultimately, the goal of choosing a place to serve customers, be it near or far from where you're located, is to ensure that customers get the help they need. As Figure 2 from the Site Selection Group reveals, every location involves benefits and risks. Yet, as Xerox and e-Service Group demonstrate, it is possible to prepare for the risks, as long as you have a plan, and the best possible workforce, to address them.

In Turley's words, when it comes to managing a global customer care team, "communication is key."

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