Survey results show that India's cost and quality continue to lead the way, but UK seen as lower risk option for contact centre outsourcing

Submitted by: Technology Law Alliance
Monday, 13 September 2004

Technology Law Alliance

Specialist law firm, Technology Law Alliance, has teamed up with leading Call Centre publication, CCF, to conduct a survey of over 1000 companies to assess the trends and implications of offshore outsourcing for UK companies.

The results confirmed that the move to offshore is continuing, with 44% of respondents indicating that they had either engaged offshore outsourcing companies, or were thinking of doing so within the next 12 months. The results also showed that 67% of such companies had indicated that they were considering India as their destination for the contact centre service provider, whilst the remainder were evenly spread amongst Europe, South Africa, and interestingly, Australia.

Jagvinder Kang, Legal Director of Technology Law Alliance, observes: “There was a lack of responses to China being a preferred destination for offshore call centres, which seems to tie in with the view that although China is making inroads into the technology offshore outsourcing sector, language and accents are still presenting themselves as obstacles to China replicating the success which India has had with hosting contact centres for international clients.”

The motivation for outsourcing also showed a reduction of costs to be the primary factor, with 41% of respondents citing this. 31% of respondents mentioned that improved quality was also a reason for outsourcing, and 25% of companies saw outsourcing as a mechanism for allowing them to concentrate on their core activities. The remaining 3% of participants saw outsourcing simply as a method of dealing with requirements which could not be managed with their internal resources.

Kang comments: “With India leading the offshore movement, it is interesting to note that the figures are highlighting the fact that India can provide a platform from which to deliver not only a cost effective service, but also a high quality service.”

On the subject of costs, Alexandra Coxon, Editor of CCF comments: “A lot of figures have been published in the press about cost savings available from India, but we thought it would be interesting to also investigate the cost savings in terms of perceived savings versus realised savings.”

In terms of companies considering outsourcing to India, 67% of the respondents expected up to 20% cost savings, with 33% expecting between 30%-40% cost savings. In terms of companies already outsourcing to India, the figures showed that the cost savings realised were approximately 30%.

Coxon comments: “Initially, when the interest in India as an offshore destination arose, cost savings of 50% were frequently cited, but 30% has now been more commonly referenced by analysts. This is to reflect the initial upfront costs of the outsourcing process, and also the fact that the more established Indian players in the market are now looking to make higher returns on their services.”

In terms of companies considering outsourcing their in-house needs to local UK companies, the cost saving expectations were between 10% cost savings, through the full range up to 50%+ cost savings. 50% of the respondents indicated that 30% - 50% cost savings probably could be realised. The actual cost savings realised by respondents for the UK however, showed that 50% of respondents saved 20% on their costs, with 25% of respondents indicating maximum cost savings experienced of 30% rather than the perceived 50% cost saving. The remainder found cost savings of less than 20%.

The survey results show that the UK variance between perceived and actual cost savings is greater than those for India. Coxon explains: “This may be because the cost savings for India have of late had more publicity compared to cost savings to be made in the UK. Also, companies which are looking to outsource to India, generally tend to have undertaken more due diligence on the financial aspects than those looking to outsource for the first time to the UK, as after all exporting a company’s operations to India is not something which a company new to outsourcing will necessarily be looking to do as its first step.”

Kang comments: “Another point to bear in mind with the above results, is that although the cost savings between India and the UK may look similar, it is quite common for companies which are now outsourcing to India to have previously outsourced their operations to a UK supplier. Consequently, it is unclear whether the respondents who were outsourcing to India were stating that they realised cost savings of 30% over their previous UK service suppliers or 30% compared to their in-house function, one would presume that it would be the former, in which case it would highlight that India still offers significant cost savings.”

The above figures also highlight that 56% of companies are still outsourcing or considering outsourcing to UK companies. The rationale was linked to the risk factors perceived with outsourcing, where 68% of respondents were concerned with service continuity at the end of the outsourcing arrangements, employee issues associated with the outsourcing and the ‘loss of control’ factor.

A local outsourcing mitigates to some extent the risk of service continuity and loss of control factor, as problems can be highlighted more readily, there is no language gap or time zone differences to deal with, and if issues arise then there is a ready supply of local service providers who can be contacted to take the service over, compared to having to deal with the logistics of bringing back to the UK a service which has been exported offshore, or trying to identify and negotiate with another supplier in the same offshore location to act as a replacement service provider.

However, this does not mean that those risks can not be addressed to some extent in offshore transactions. Kang comments: “With regard to service continuity at the end of the outsourcing arrangement, this should be addressed upfront as part of the contract negotiations with regard to exit assistance and exit planning being built into the contract. This has the advantage of ensuring that the issue is addressed, and also the costing for this can be put into place, so that the cost savings which are made from offshore outsourcing are not negated through high exit charges imposed by a supplier at the end of the relationship.”

Kang continues: “This does raise another issue which parties often overlook in their haste to get their contract signed, namely exit assistance. Customers often see this as something which is not going to happen until the end of the contract and therefore there is plenty of time to get the process agreed before then, but this does not reflect the possibility that early termination of the contract could also occur. In a breach situation, the parties' working relationship can easily become strained, and in such circumstances, it will not be the most conducive environment for a customer to be confident that full assistance will be provided by a service provider in a cost effective manner."

The survey did also look into what companies would do at the end of the outsourcing if the service was satisfactory. 17% of companies were not aware of what they would do at the end of the transaction, and 33% of companies mentioned that they would simply renew their arrangements with their existing suppliers. The remainder stated that they would either look for an alternative supplier or bring the service back in-house.

Coxon comments: "The statistics do give rise to some surprise, as not having a 'plan' for what happens at the end of the outsourcing adds risk into the equation. Furthermore, the fact that only 33% of respondents would renew their arrangements with the same supplier, runs the risk of counting against the cost reduction motivation for the original outsourcing. Undertaking due diligence on service providers and dealing with the logistics of transferring a service to another supplier is both time and cost intensive, so one would assume that a party would be reluctant to transfer the service at the end of the initial term of the contract."

Kang advises: "If the motivation for re-tendering the service is to retain competitive pricing and service, then the better approach would be to include benchmarking provisions in the initial contract which automatically have price consequences for the supplier. This could also be combined with a process for revising the service level arrangements at certain periods during the agreement."

With regard to other risk areas in respect of outsourcing, 16% of respondents also raised quality issues, the supplier's ability to perform and the supplier's financial standing as factors which concerned them with outsourcing their contact centre requirements. Kang mentions: "This highlights the importance of undertaking 'pilot/trial contracts' with service providers to assess the ability of the service provider to perform. With regard to the financial aspect, there are various ways of mitigating that risk, including a combination of insurance, financial or parent company guarantees, or performance bonds."

Political stability of locality and infrastructure issues, which are frequently cited in the context of offshore outsourcing, were perceived by the respondents as lower risk factors, with only 11% raising infrastructure concerns and only 5% feeling that political stability was an issue. Kang comments: "Although they are lower risk areas, these issues can again be addressed to some extent through business continuity and disaster recovery obligations being imposed on a service provider. However, it is important to ensure that the additional safeguards which are required from a supplier warrant the associated cost."

Kang continues: "In view of the above, companies could benefit from engaging specialist outsourcing consultants and specialist lawyers in the outsourcing process to advise them, as this can again assist to mitigate the above risks to some extent. However, it was surprising to note that over 68% of those respondents who had concerns about the outsourcing process felt that they had all the resources in-house to deal with the process and did not need to engage external advisers. Typically, the cost of external advisers is seen as just another cost to a business at a time when it is seeking to reduce costs, instead of being viewed as a longer term investment.”

Kang continues: “The problem which businesses need to guard against is the fact that preparing for and negotiating an outsourcing transaction is very resource intensive, and requiring in-house staff alone to deal with this and their ‘day jobs’ is something which is either impractical, or something which may give rise to internal stress and resentment. This may also be coupled with the possibility of a transaction which is concluded on terms which are less favourable and expose the business to more risk than would have been the case if advisers were engaged upfront rather than having to be engaged post the event if things go wrong.”

Coxon concludes: “The survey confirms the view that India and UK are remaining at the forefront in terms of destinations for outsourcing, together with the types of cost savings which one may realistically expect. However, it is important to realise that the risk factors and cost savings in outsourcing are reliant to a large extent upon getting the right advice as part of the outsourcing process and not just the final service provided by the supplier.”

CCF is sponsoring Call Centre Expo 2004, Europe’s premier exhibition and conference for call centre and customer contact solutions at the NEC on 29-30 September 2004, and Jagvinder Kang of Technology Law Alliance will be co-presenting a masterclass on tackling legal issues in offshore outsourcing transactions at the conference.

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NOTES FOR EDITORS

• Press release photograph of Jagvinder Kang, Legal Director of Technology Law Alliance is available for this press release.

Technology Law Alliance:

• Technology Law Alliance is a leading specialist technology law firm, which provides a national service, with offices in London and in Birmingham. The firm acts for both suppliers and purchasers of technology products and services. Clients include FTSE100, multinationals listed on the New York Stock Exchange, as well as AIM listed businesses.

• Technology Law Alliance has advised on over £2Billion worth of technology deals in the past 12 months, including some of the most high profile £Multi-Million offshore outsourcing contact centre deals involving FTSE100 companies.

CCF:

• CCF is the first and leading call centre magazine in the UK. The most widely read customer contact title in the UK, it has an estimated total readership of 47,000+ call and contact centre professionals working across a full spectrum of industries, and caters specifically for the higher echelons of management.

• ABC audited, CCF is distributed to subscribers 11 times a year, and is part of a portfolio that includes the leading annual exhibition Call Centre Expo.

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