White Paper

Homeshore vs. Offshore

The Changing Landscape of Outsourced Customer Care

Overview:
The outsourced customer care landscape is rapidly changing. The increasing costs and continually declining customer satisfaction with offshore providers has more companies now looking to the homeshore solution. As a corporate decision-maker, call center executive, customer service director or head of operations, finding a solution that offers both cost-effectiveness and high quality customer outcomes is of primary importance. Learn why a majority of companies are now embracing the virtual solution and bringing their customer care operations back home – literally.

The Changing Landscape of Outsourced Customer Care

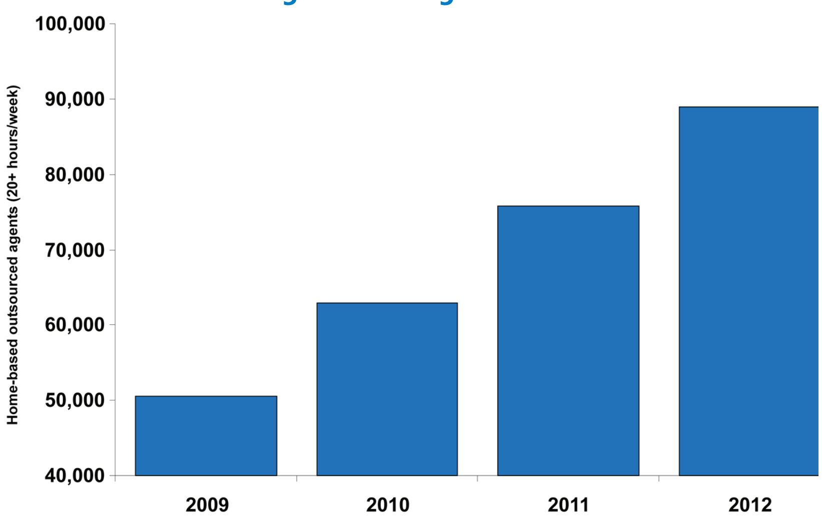
For the past decade, domestic contact centers have been lured offshore by promises of low-cost services. According to data from market research firm Datamonitor, since the early days of offshoring more than a decade ago, over 400,000 contact center positions have been moved to overseas facilities[1].

Indeed, wages in developing countries allow offshore contact centers to offer a cheap service that is sufficient for some companies. However, recent economic and political instability, as well as quality issues and consumer backlash, have many business leaders rethinking their offshore decisions. When the expense of managing foreign sites, losing customers, and regaining loyalty from a dissatisfied customer base are factored into the equation, the inexpensive offshore option actually can be the most costly. For these reasons, less than 10% of companies now see offshore centers as a positive way to reduce operational costs, and only 4% have plans to offshore in the next three years[2].

The fixed overhead expenses and high operating costs of traditional brick-and-mortar (B&M) centers initially drove businesses overseas. Fortunately, the emergence of the virtual at-home call center model has given companies a new onshore option — one that combines a lower overall cost with a higher-quality customer experience. The "all-in" cost — inclusive of direct (wages, benefits, real estate, etc.) and indirect (customer churn, employee productivity, attrition, etc.) expenses — of outsourcing to a virtual call center is typically 25-30% lower than traditional onshore B&M centers. This savings, combined with better customer interaction outcomes, has caused leading companies across all industries to switch to the virtual at-home model. In fact, analysts at Frost & Sullivan[3] report that work-at-home agents now account for 17% of all contact center agents, and companies now rank at-home agents as the biggest growth area for them over the next two years (ahead of onshore B&M facilities and offshore providers).

To successfully navigate the changing customer care landscape, executives need to understand the global dynamics and economic drivers behind each call center option. This will allow them to select the call center solution that best matches their business and customer needs.

Home Agents Gaining Market Traction



Source: Ovum

The Initial Overseas Migration

While the offshore phenomenon (particularly India) has been around for more than a decade, the pace of migration to other regions like the Philippines and Latin America accelerated with the global "Great Recession" that began in December 2007. Businesses that had posted steady growth for years were suddenly faced with critical losses. Budgets had been slashed, corporate spending was down and businesses were struggling to do more with fewer resources. Against this backdrop of economic pressure, the cost of providing customer care came under intense scrutiny. When faced with "reduce costs or else" scenarios, the low-cost promises of offshore providers was hard to resist. Even savvy executives, who understood that high-quality customer support was crucial to the long-term sustainability of their companies, were tempted by the 50-60% proposed cost savings made possible by less expensive labor and lower overhead (i.e. real estate and building expenses).

Unfortunately, for many companies that moved offshore in the past five years, the potential cost savings never materialized. Instead, they are now dealing with the negative consequences of consumers who are expressing discontent by taking their business elsewhere.

Re-evaluating Offshore Services

For companies with simple call types (i.e. computer-related tasks, scripted calls, record-keeping, or bill-processing), the move offshore sometimes worked. In an article for the Wall Street Journal, Craig Barrett and James Moore Jr. make the argument that sending certain types of jobs overseas is the logical result of an increasingly global business environment, saying, "In today's world, outsourcing can save companies money, reduce the time it takes to deliver products and services to customers, and provide access to skilled employees unavailable in the U.S."[4]

However, businesses with complex call types and higher-value customers experienced so many problems with offshore centers in the past few years that they are now coming back onshore in droves. "Offshore has really lost its luster," says Peter Ryan, lead analyst for Ovum. "There are definite concerns about how offshore will play in the minds of consumers, media and political classes."[5] Many of the world's largest and most-respected brands are now bringing calls back onshore for some of the following reasons:

- **Rising Costs** — Low labor costs traditionally have been the biggest incentive for sending customer service calls offshore. With average hourly wages offshore in the $2-$4 range compared to $12-$14 onshore, it's easy to understand why businesses made the simple calculations and sent their calls to less developed countries. But, as more businesses moved overseas in search of cheap labor, the increased competition for talent and space has driven up costs. Companies are now forced to move from one under-developed region to another to maintain their low rates. As a case in point, Chairman of General Electric, Jeff Immelt, was recently quoted as saying that the cost difference between operating a call center in the US versus operating a center in India has narrowed to as little as 10 percent[6].

- **Legal Risks & Fraud** — Insider threats or potential fraud from internal workers is often the greatest vulnerability faced by contact centers. While this risk is reduced in the U.S. through stringent hiring policies, offshore facilities often do not have the same checks and balances, creating more opportunity for misuse of information from the inside. Cybercrime investigator, Charles Jeter, states, "Where background checks and employment history may weed out the criminals who intentionally penetrate call centers stateside, I am not aware of risk mitigation from external call centers hosted in India, the Ukraine, the Philippines and elsewhere."[7]

  Unfortunately, companies have found it extremely difficult to prosecute fraudulent activity when it occurs overseas. Lack of restitution, lax oversees hiring policies and potential legal issues all must be considered when selecting a call center solution.

  In addition, companies in the healthcare and financial services sectors have encountered serious legal issues when moving customer care functions to lower-cost, offshore providers. Multiple class action suits have been filed against some of the nation's largest banks and credit card companies for transferring customer calls to offshore centers staffed with foreign nationals where data privacy and protection standards are looser or nonexistent. These suits claim that the transfer is made without the knowledge or prior authorization of customers, violating the federal Right to Financial Privacy Act.

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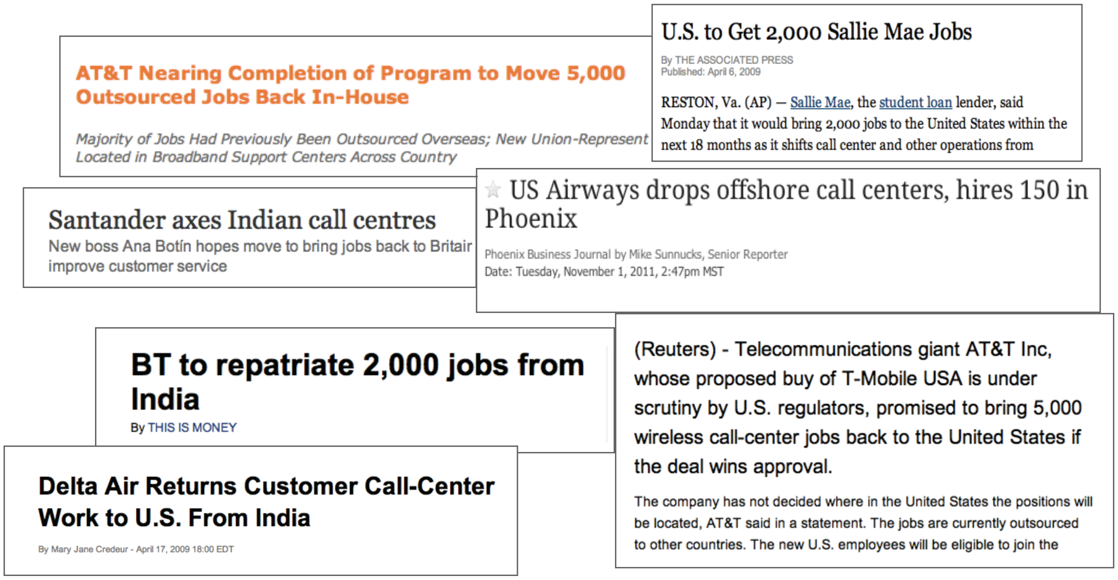


AT&T Nearing Completion of Program to Move 5,000 Outsourced Jobs Back In-House

Majority of Jobs Had Previously Been Outsourced Overseas; New Union-Represent Located in Broadband Support Centers Across Country

U.S. to Get 2,000 Sallie Mae Jobs

By THE ASSOCIATED PRESS
Published: April 6, 2009

RESTON, Va. (AP) — Sallie Mae, the student loan lender, said Monday that it would bring 2,000 jobs to the United States within the next 18 months as it shifts call center and other operations from

Santander axes Indian call centres

New boss Ana Botín hopes move to bring jobs back to Britair improve customer service

US Airways drops offshore call centers, hires 150 in Phoenix

Phoenix Business Journal by Mike Sunnucks, Senior Reporter
Date: Tuesday, November 1, 2011, 2:47pm MST

BT to repatriate 2,000 jobs from India

By THIS IS MONEY

(Reuters) - Telecommunications giant AT&T Inc, whose proposed buy of T-Mobile USA is under scrutiny by U.S. regulators, promised to bring 5,000 wireless call-center jobs back to the United States if the deal wins approval.

The company has not decided where in the United States the positions will be located, AT&T said in a statement. The jobs are currently outsourced to other countries. The new U.S. employees will be eligible to join the

Delta Air Returns Customer Call-Center Work to U.S. From India

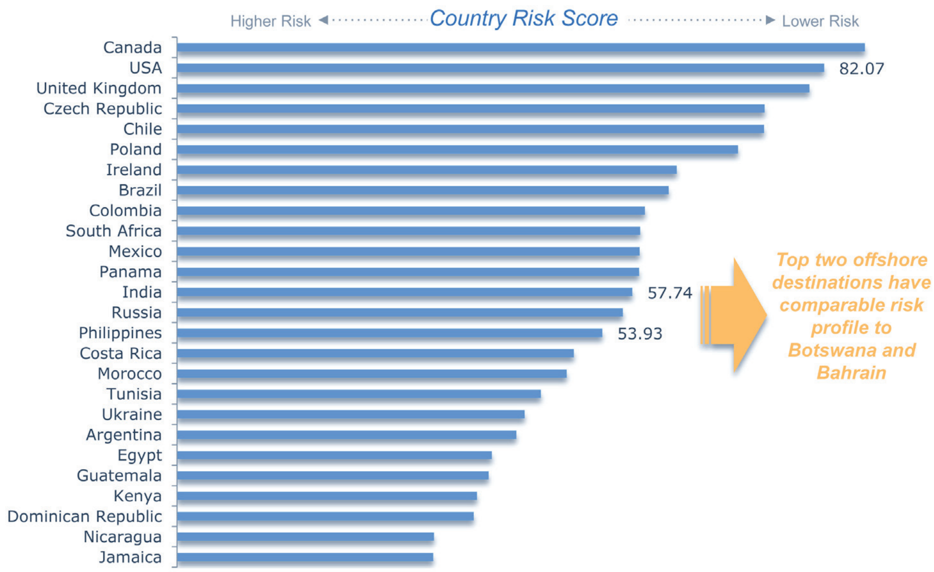
By Mary Jane Credeur - April 17, 2009 18:00 EDT

- **Political and Economic Instability** — As mentioned earlier, the search for the lowest-cost labor pools has forced companies to move into riskier geographic locations. The political and economic instability of these regions continues to cause service-interrupting problems. Examples include:
  - Egypt's government shut down of both telephone and Internet service throughout the country, crippling the contact center operations of some of the world's largest brands, many of which had moved to Egypt 12-18 months prior due to its perceived stability.
  - 5,000 call center agents were unable to assist customers when the government in Tunisia, North Africa shut down Internet connectivity for a week.
  - Drug violence in Mexico has made business risky in the city of Monterey, a traditional call center hub.

  Companies should also consider items such as inflation and country debt levels when moving to foreign countries. The following chart by Euromoney shows the calculated risk of doing business within various countries:

  For many companies, the cost of not servicing customers due to political and economic turmoil, along with the hassles of traveling to these remote locations, is simply too high to justify sending customer care services to offshore facilities.

- **Anti-Offshore Legislation** — Officials in many countries are trying to make it more difficult, and more expensive, for companies to send call center jobs offshore. In the U.S., for instance, several proposed bills at both the state and federal level have been introduced that would penalize companies for sending customer service jobs overseas. The proposed U.S. Call Center and Consumer Protection Act (HR 3596), for example, would make any company that moves a call center offshore ineligible for federal grants or loans. It would also require companies to provide at least 120 days' notice before moving offshore, require the U.S. Department of Labor to maintain a list of employers who relocate a call center overseas, and force call center workers to disclose their location if asked by the caller[8]. In a time when unemployment levels remain high in many developed nations, few companies want to be seen as shipping good jobs overseas or creating employment opportunities in other countries.



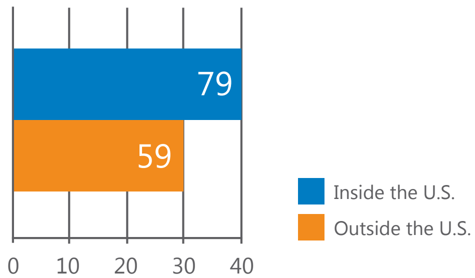
Source: Euromoney, Country Risk Results, June 2011 (composite of economic, political, structural, debt indicators, credit rating, access to bank & credit markets)

- **Customer Backlash** — Yet, the biggest factor in bringing call center activity back onshore has been negative consumer reaction. Organizations are taking a hard look at the quality of service delivered by offshore providers and concluding that consumers prefer interacting with domestic-based agents.

  As the graph to the right illustrates, years of poor service have created a negative perception of offshore services[9]. Consumers who thought their calls were being answered by an offshore agent ranked their level of satisfaction 20 points lower than those who thought their calls were handled domestically.

  The same survey reported that customers were three times more likely to defect to a competitor if they were serviced by an offshore contact center. CFI Group also found that low satisfaction with offshore providers stems from poor issue resolution: it simply takes consumers too much time or requires too much effort to get problems resolved when working with overseas agents.

Overall Customer Satisfaction Index — CFI Group Survey



Barriers to Issue-Resolution

The most obvious contributor to issue resolution from an offshore provider is language. When callers and agents do not completely understand each other, it is impossible to provide high levels of service. In addition to language barriers, consumers frequently encounter cultural misunderstandings when working with non-domestic agents. Although offshore call centers attempt to teach cultural knowledge, the truth is that culture is deeply ingrained into a person's behavior and is one of the hardest things to change or develop. When language issues are combined with a lack of understanding of the customer's lifestyle, slang, and other disparities, the offshore interaction can truly become "lost in translation."

Whether it is due to language or cultural barriers, customers are more likely to be transferred to several offshore agents before getting their issues resolved. They are also more likely to call multiple times. Increases in call duration, abandonment rates, and wait times, all contribute to unhappy customers and erode potential cost-savings. For example, while the per-minute rate of a call sent overseas may be 50% cheaper, the initial savings is rapidly diminished and the total cost to service a customer could end up higher if the call runs significantly longer or if the customer needs to call back multiple times.

Movin' On Back

Because of the language & cultural barriers, increased customer effort required to resolve an issue, and lower satisfaction offshore, more companies are now reacting to the customer backlash by bringing jobs back onshore. When announcing that Delta Airlines would be moving customer care back onshore from India, CEO Richard Anderson said, "Customer acceptance of call centers in foreign countries is low, and our customers are not shy about letting us have that feedback."[10] Delta Airlines is not alone in this onshoring trend, as shown by these recent headlines:

U.S. to Get 2,000 Sallie Mae Jobs

U.S. Airways Drops Offshore Call Centers, Hires 150 in Phoenix

United Air to Move 165 Call-Center Jobs Back to U.S.

BT to Repatriate 2,000 Jobs from India

However, companies bringing services back onshore are reluctant to return to the expensive and inflexible traditional B&M model. The high fixed costs of these centers are what caused companies to move offshore in the first place. Instead, many executives are electing to partner with a virtual at-home contact center, as evidenced by many of the leading outsourced at-home companies that are growing in excess of 50% annually[11].

Virtual @Home Solution is a Domestic Option that Works

The home-based customer care model, known as homeshoring, offers unique benefits that make it an ideal solution, especially when quality is a top consideration. As the below chart summarizes, virtual contact centers like Alpine Access provide both value and quality for today's customer-focused companies.

	OFFSHORE	HOMESHORE	THE HOMESHORE ADVANTAGE
Call Type	• Simple • Highly scripted	• Complex • Largely off script	• Best option for sales, technical support, and collection calls
Agent Profile	• Average age 21-24 • First job • No college degree	• Average age 38-41 • 15+ years of work experience • 80% college educated	• Better agents • Higher quality metrics • Reduced attrition • Improved satisfaction
Agent Training	• Basic, in-room instruction	• Comprehensive, best-of-breed • eLearning techniques	• More knowledgeable agents • Faster speed to competency • Improved call resolution
Security/Risk	• Minimal security • Not bound by U.S. laws • Difficult to monitor and enforce	• Secure remote desktop • 100% call recording • PCI compliant	• Industry-leading security • Best option for sensitive data and customer information

When businesses take a more holistic approach to evaluating their outsourced call center options, homeshoring is the clear choice for delivering top-quality service at a low overall cost. The unique benefits and cost-saving advantages of virtual at-home centers are provided through lower fixed expenses, higher quality agents, and more efficient operations.

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- **Reduced Expenses** — First, virtual call centers do not have the high real estate costs and building maintenance expenses of B&M centers. These costs combined with lower labor and training expenses, can save clients 25-30% in overall customer care costs.
- **Higher Quality Agents** — With no geographical boundaries to limit hiring, virtual at-home centers also have the advantage of being able to recruit and hire from across North America. Whereas B&M centers typically have an applicant-to-hire ratio of 10:1 or lower, the leading at-home providers often have a ratio of 100:1. This allows homeshore providers to be very selective during the employment process, ensuring optimal matching of high-quality talent to each client program.
- **More Efficient Operations** — The inherent staffing flexibility of a home-based workforce enables the highest level of operational flexibility and scalability. Using a blended workforce of part-time and full-time professionals, schedules in a virtual environment can be set in 15 minute increments to meet both forecasted demand and an employee's preferred work schedule. Should the actual call volume differ from the forecast at any time, virtual call centers — where employees do not have commutes — have the ability to increase or decrease the number of agents on the phones in real-time. Whether it is to accommodate seasonal, weekly, intraday, or even intrahour changes in call volume, homeshore providers help clients save money by providing appropriate staffing at all times.

When it comes to delivering high-quality and cost-effective customer interactions, few delivery models or locations are able to compare to the homeshore solution, particularly when offshore (and even onshore brick-and-mortar) risks are factored into the cost equation. Industry analysts concur with this conclusion. Research firm Datamonitor reported, "The use of at-home agents continues to grow, due to the proven effectiveness of this business model in providing lower cost and high quality contact center services."[12]

Homeshoring is a viable replacement for both onshore and offshore B&M centers and the growing number of companies using at-home agents proves it is now the preferred model of choice. Contact Alpine Access at 866.279.0585 or email sales@alpineaccess.com to find out how the virtual @home model can save you from the offshore headache.

About Alpine Access

Alpine Access is redefining the contact center industry through its virtual outsourcing services and solutions. Founded in 1998, Alpine Access powers the customer service and technical support operations of many leading international brands through approximately 5,000 work-at-home professionals across the U.S. and Canada. The company offers a robust suite of distributed workforce solutions and capabilities, including SaaS-based talent management platforms, security solutions in the cloud, and consulting services. Rated the #1 contact center and CRM outsourcer for client satisfaction by the Black Book of Outsourcing, Alpine Access' clients include respected Fortune 1000 companies in the financial services, communications, technology, healthcare, retail, travel and hospitality sectors. For more information, visit the Alpine Access website at www.alpineaccess.com or call 866.279.0585.

[1] "CRM Outsourcing Forecast," Ovum, April 2011.

[2] Taken from presentation slides by Ovum.

[3] "Customer Care Outsourcing End-User Survey," Frost & Sullivan.

[4] The Allure of Outsourcing Too Powerful for US Companies to Resist," by Palash R. Ghosh, IBTimes.com.

[5] Quote provided during Ovum webinar, "Homeshore vs. Offshore: The Changing Landscape of Customer Service."

[6] "India Struggles to Cap Wag Inflation" by James Lamont, Financial Times.

[7] "Security perspectives on call center ID theft risks, Part 2" by Charles Jeter, SC Magazine.

[8] United States Call Center Worker and Consumer Protection Act.

[9] "Contact Center Satisfaction Index 2010," CFI Group.

[10] "Delta Air Returns Customer Call-Center Work to U.S. From India," Bloomberg News.

[11] Take from presentation by Datamonitor Research.

[12] "Deriving value from at-home agents (Market Focus)," Datamonitor, September 2007.

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