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CRM: Off-shore Outsourcing of Customer Facing Functions – How Effective Is This Strategy?

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"Offshoring will grow faster and gain more traction in 2004"

"Offshoring will spread to other BPO processes."

"Order to cash, customer relationship management, and commercial real estate may become prominent outsourced processes using a transaction engine this year." [9]

INTRODUCTION

Everyday, one reads headlines like this in trade publications, business magazines and news magazines. Under a general umbrella of Business Process Outsourcing (BPO), many US firms are outsourcing, and more critically, going offshore for such business functions as Call Centers, Help Desk, Telesales/marketing, and other customer relationship management (CRM) functions. When you call Delta Airlines, American Express, Sprint, Citibank, IBM or Hewlett Packard's technical support number, chances are you'll be talking to an Indian [1]. Investment banking and financial industry estimates that CRM functions will be outsourced up to $500 Billion by 2004 [5]. Kiran Karnik, president Nasscom, has forecast that BPO to India by foreign companies will lead to 1.1 million jobs by 2008 [4].

The primary motivation for such outsourcing is to lower operational costs. Other benefits may include better service, customer retention, transfer of fixed costs into variable costs, increase speed to market, facilitate scalability and reduce risk and focus on core capabilities. However, when one views the entire process and results, often the question of outsourcing effectiveness arises. BPOs do not work well for complex, high-value calls or in industries, which are heavily regulated and customer-centric. Companies often loose direct communication channel with their customers which is critical for high customer retention. CRM strategy goes beyond just implementing the system into identification of best customers, converting their interest into business, and retaining them over a period of time [6].

The disappointing outcomes of many forays into CRM outsourcing are often the result of approaching outsourcing in an ad hoc manner. Outsourcing CRM doesn't mean handing off a function to the lowest bidding vendors. To be successful at outsourcing, management need to use a business outsourcing model to minimize risks [7], develop long-term partnerships and be clear about the outsourcing partner's needs and expectations, and work together toward a common goal [2]. To avoid this gap in the perceived value of IT between expectations and reality, many enterprises require a sign-off on Service Level Agreements (SLA) that go beyond the typical performance metrics to include a customer satisfaction analysis as part of the contract [3]. Customer satisfaction analysis often mean assessing customer complains and comparing them against the customer expectations [8].

The focus of this research is on answering the critical questions of "How effective is CRM processes outsourcing?" and "What are the benchmarks for measuring this effectiveness?" Specifically, we are interested in determining the impact of outsourcing on customer service quality as measured by customer satisfaction and frustrations, customer communication processes, time taken for problem resolutions, and general helpfulness of the customer service provider as perceived by the customer.

EXTENDED ORGANIZATIONS: IMPACT ON SERVICE QUALITY

CRM outsourcing requires complex relationships among three groups: the *Company* (the company which out sources the CRM function), the *Outsourcer* (the vendor/entity performing the CRM function) and the *Customer* (the consumer or a business or even an internal user), as shown in Figure 1. Though from an overall business process standpoint, the relationship is similar to Employer, Employee and Customer; however, due to multiple options available to the company (i.e. employer), the relationship may become complex and unclear. The discussion on outsourcing and off-shoring generally revolves around the relationships between the Company and Outsourcer. For instance, Bhattacharya, et al. discuss managerial context of the relationship in great detail [7]. Similarly, Ravi and Singh [10] describe relationships between the company and the outsourcer creating an extended organization largely possible through technology. *"The boundary of the firm is being compressed, while in other ways it is being expanded. What was once being handled inside the firm has now become a market transaction. An extended organizational form is emerging in which firms relinquish control and turn to monitoring instead."* [10]
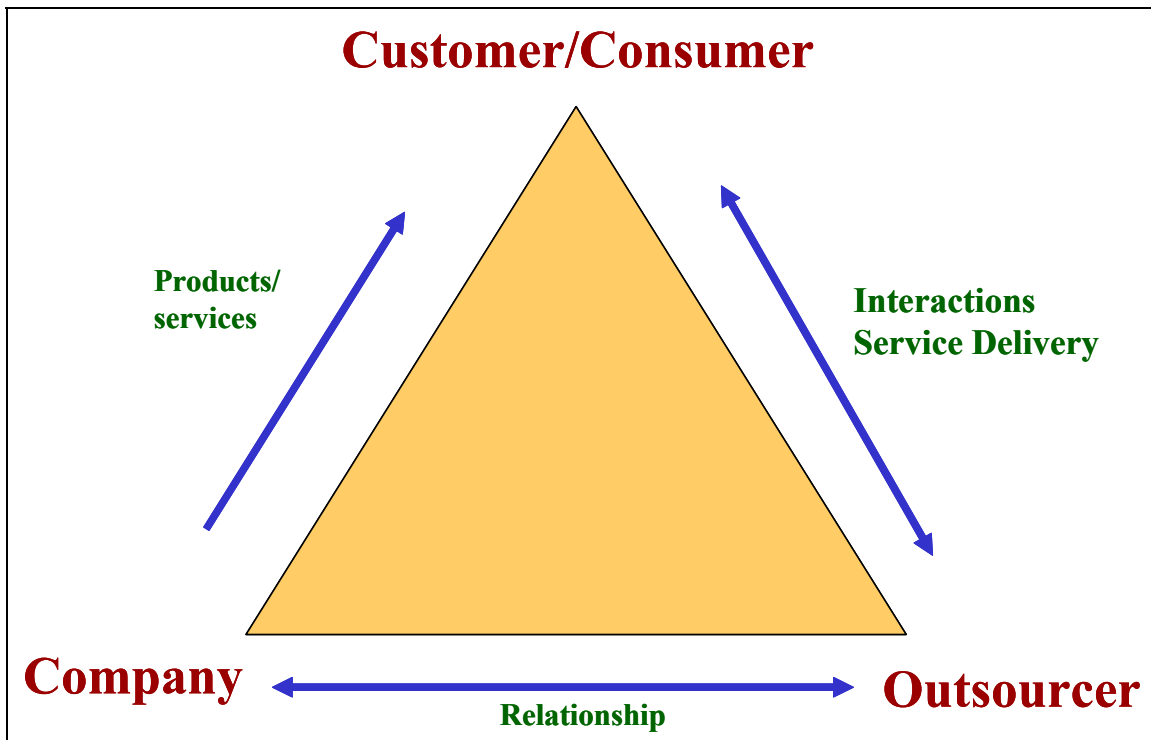

Figure 1: Customer Service Outsourcing Relationship

Very little discussion has taken place on the relationship between Outsourcer and the Customer. It is probably is assumed by the Company that any agreements and SLA's (Service Level Agreements) executed between the Outsourcer and Company will automatically be reflected in a similar relationship therefore, customer service quality will remain unchanged. There are several issues with this assumption. Two most important ones are: (i) the current business process are tuned to an expected service levels, which may or may not be true and may require a re-engineering; and, (ii) the relationship between Outsourcer and Company is in fact one of logically extending Outsourcer's capacity & capability. Businesses have utilized many traditional outsourcing services, such as legal, accounting, collections, etc. as normal extensions to internal processes and functions.

Certain customer facing functions, as shown in Figure 2, such as collections and telemarketing have also been outsourced, without much concerns or impact on "Customer". Two key recent trends have caused concerns and raised some questions: one, is the trend to outsource critical customer facing functions, such as customer service, help desk, call centers, etc. real; and two, off-shoring of these functions to achieve significant cost savings.
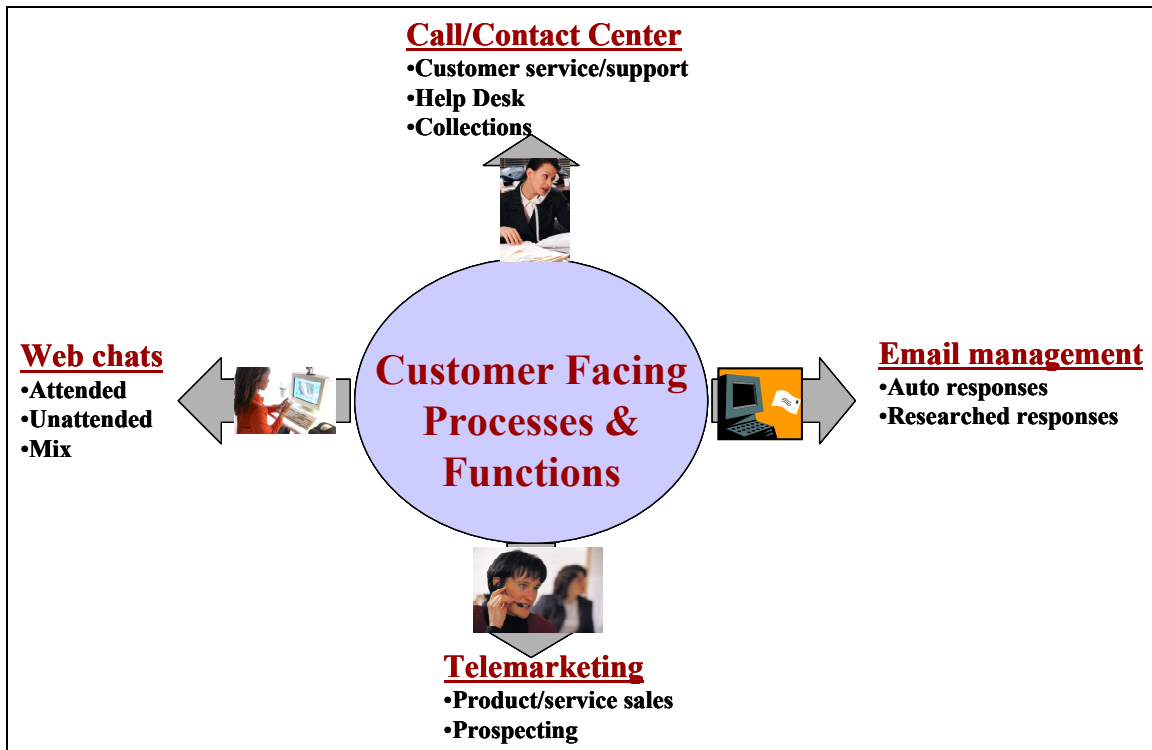
Figure 2: Customer Management and Outsourcing/Off-shoring

These trends raise issues on the customer service quality. Customer service quality relates directly to the customer loyalty. The most significant takeaway for companies who employ CRM strategies in their call center, "is that [the report] validates that kind of investment. It creates the opportunity for someone in the CRM industry to look at the call center not as an expense, but for profit -- as a place to generate loyalty." [11]. "The quality of a call is everything to retaining customers," a recent study observed that a 55 percentage point difference in future purchase intent when comparing the intent of respondents who were happy with their phone experience against those who were not [11].

Another factor is the customer satisfaction. Research studies have time and again showed how the customer experience dictates buying behavior. "Customer satisfaction has had a greater influence on consumer spending in recent years than income changes and consumer confidence combined" [12].

MEASURING CUSTOMER IMPACT

These newer customer facing processes expose the customer directly to the outsourcer. This increases the risk for the company, if the outsourcer is off-shore, for a multitude of reasons from cultural differences to technical problems which affect the interactions between the customer and the company. The Customer Service Quality Outsourcing framework, shown in Figure 3, can help determine the customer service quality by looking at the outsourcing relationship between the company and the outsourcer on two dimensions, namely, management control and cultural differences. The management control issue focuses on who retains the final ownership of the customer service function. When the company establishes an off-shore facility on its own or with the help of a local company or partner but retains the control of the outsourcer firm then management control is considered *tight*. In this relationship, the employees of the outsourcer are from the local country while the management is from the home country. On the other hand, when the company relinquishes management control to the outsourcer then management control is considered *loose*. The cultural differences issue looks at the similarities or differences in the various aspects of culture between the company's customers and the outsourcer. The cultural aspects, ranging from communication and language accent differences to local cultural references, can be either *high* or *low*.
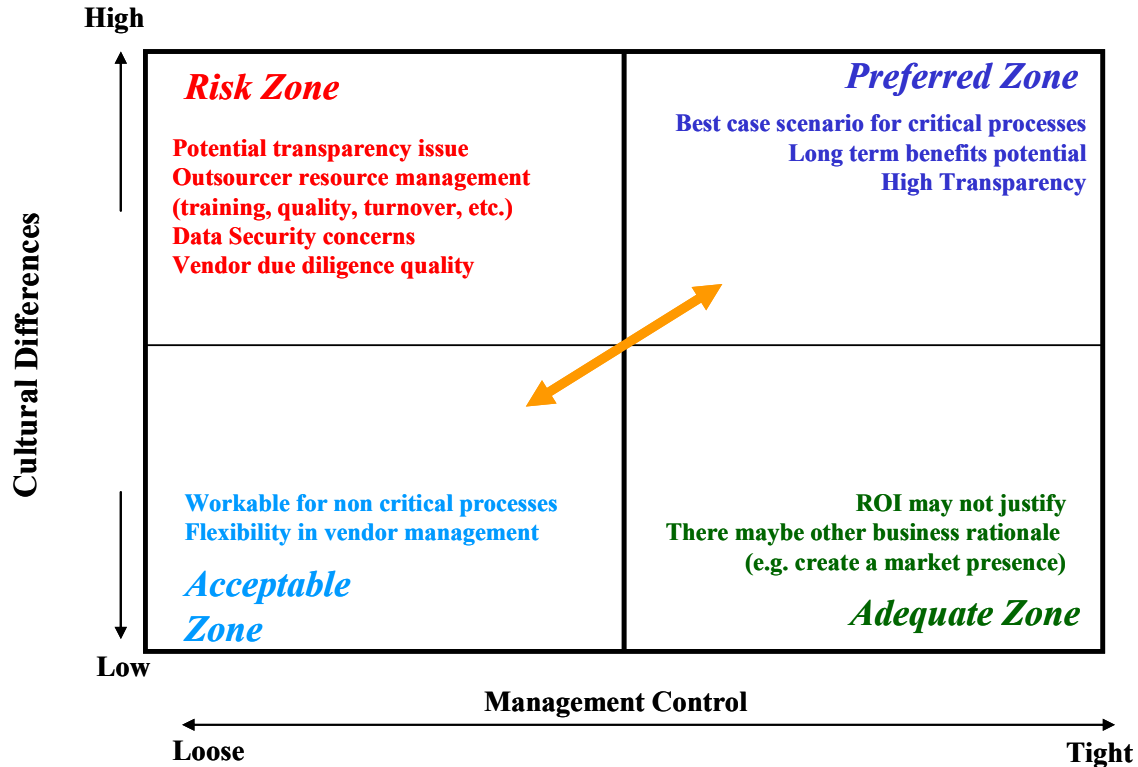
High

Risk Zone	**Preferred Zone**
Potential transparency issue **Outsourcer resource management** **(training, quality, turnover, etc.)** **Data Security concerns** **Vendor due diligence quality**	**Best case scenario for critical processes** **Long term benefits potential** **High Transparency**
Workable for non critical processes **Flexibility in vendor management** **Acceptable Zone**	**ROI may not justify** **There maybe other business rationale** **(e.g. create a market presence)** **Adequate Zone**

Low

Management Control

Loose   **Tight**

Figure 3: Customer Service Quality Outsourcing Framework

The risk zone for the company is when the cultural differences are high and management control is loose. In this situation, the economic benefits can be maximized but because of major cultural differences and minimal oversight the chances of the effective customer service quality are very low. The preferred zone for the company is horizontally opposite to the risk zone. This is where the controls are tight with good management oversight required to operate in the environment where the cultural differences are high. Here the economic benefits are long term due to higher initial implementation costs and the management overhead structure. The base premise of lower labor costs will still be present, though there may be situations of higher costs than other local companies. The Preferred Zone offers a high transparency and therefore the service quality will be effective. The other two quadrants are either the acceptable zone where cultural differences are low and management control is loose or the adequate zone where cultural differences are also low but management control is tight.

The framework leads us to the following propositions for our research study:

P1. The customer service quality will be most effective in the preferred zone and least effective in the risk zone
P2. The customer service quality will be comparable in both acceptable zone and adequate zone; however, comparatively the ROI's will be higher in the acceptable zone.

These propositions are based on the assumption that customer service function is highly correlated with the cultural differences as well as management control. A tighter management control is desirable in offshore facilities with greater cultural differences to overcome the basic cultural deficiencies. Thus, offshore customer service centers with lower cultural differences will be acceptable even when the management control is loose.

Two companies, one from IT industry and another from financial services industry, that have outsourced their CRM functions off-shore are being included as case studies for our study. The objective of these case analyses is to measure the effectiveness of the outsourced customer service quality. We define effectiveness as perceived by the customer in the following areas:

- Customer satisfaction – analysis of complains or frustrations and general helpfulness

- Customer communication – clarity of understanding
- Customer responsiveness – average time taken to respond to customer enquires
- Problem resolution – average time taken to resolve the problem

A targeted survey to measure customer service quality is being currently developed. While it may be clear that off-shore CRM outsourcing projects result in significant financial savings for the outsourcing companies, the results from this study will hopefully shed light on its impact on customer service quality, namely, in terms of their complaining behavior has been increasing or decreasing since outsourcing. In addition, it may also provide answers on whether consumer privacy and value-added services to the consumer are compromised with these outsourcing arrangements.

CONCLUSION

The paper examines roles of technology in either facilitating or interfering with the customer service quality. One key technology that has been identified is Knowledge Management and the other key technology is Broadband Communication. We intend to study how accumulated data/information about the customer is translated into knowledge to attain better servicing levels. For instance, it is widely concluded that 80% of the problems customer report have been handled previously. Therefore, is the technology in place to capture the structure and make available the knowledge to the outsourcer in a timely manner? Similarly, we want to know whether the telecommunication technology has any impact with geographically dispersed customer service centers. Issues such as clarity of signal, voice-over-IP, and local telecommunication policies may either help or interfere with the overall quality of the service centers.

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