

Customer Relationship Management

Managing Your Customer Relationships with
Business Process Outsourcing

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Maximize your customer relations with business process outsourcing.

When executives at AT&T Consumer's Services' long distance business unit faced this challenge, they decided to transform the business unit's sales and customer care operations through an innovative business process outsourcing (BPO) arrangement that AT&T and its provider refer to as "co-sourcing." This arrangement will not only enable AT&T to gain access to crucial cutting-edge technologies, but will also provide them with leading-edge customer relationship management practices. Unlike most outsourcing arrangements, AT&T employees continue performing key processes while remaining employees of AT&T, and work side by side with the provider's own staff and management team. In addition, whereas other organizations typically contract for call center processes only, AT&T is working closely with its "co-sourcing" partner to pursue these initiatives:

- Develop and implement new customer relationship management strategies, such as customer insight and segmentation;
- Integrate all customer interaction channels, including implementation of additional self-service capabilities;
- Use process design and training solutions to improve workforce skills and efficiency.

AT&T executives expect significant improvements in customer service, satisfaction, and retention, as well as customer acquisition yields. In addition, AT&T and its provider expect to reduce customer service costs by 50 percent in five years by driving volume through newly implemented self-service channels and by reducing agent overhead costs.

Few outsourcing arrangements exhibit the scope and commitment that AT&T's "co-sourcing" arrangement does. However, like AT&T, many organizations no longer view business process outsourcing merely as a tool to incrementally reduce costs. Rather, organizations today are using business process outsourcing to achieve a broad range of strategic goals. For example, radical cost reductions that can significantly affect the bottom line, the redirection of capital to more strategic areas, and access to new technology and expertise that can transform also-ran activities into industry leading processes that may help push the competitive envelope.

The New Role of BPO in Customer Relationship Management

Business process outsourcing, or contracting with an external organization to take primary responsibility for providing a business process or function, is not new in customer care. Organizations have long contracted out highly structured call center processes. These arrangements have helped organizations cope effectively with fluctuating capacity demands, reduce costs by shifting call center operations to less expensive locations and lighten the management burden of a function characterized by high turnover and high-touch, people-intensive processes. Today, however, companies are outsourcing a much broader range of processes, including outbound sales, the management and integration of multiple points of customer contact, customer segmentation and analytics, and sometimes even, parts of marketing, and product and offer management (see Exhibit 1: The Range of Strategic Value for Customer Relationship Management Processes). In addition, organizations today can choose from a wider variety of relationships with their outsourcing provider. To structure an effective relationship, executives address four questions (see Exhibit 2: BPO Relationship Compass).¹

- How deep should the relationship be?
- How broad should it be?
- Whose way of working should be used?
- Whose assets should be used?

As organizations have grown increasingly comfortable outsourcing more strategic processes and establishing a variety of types of relationships with their providers, outsourcing processes in customer relationship management (CRM) has surged. Analysts estimate that the BPO market for customer selection, acquisition, retention, and extension in the United States alone was over \$6 billion in 2000, and will grow to over \$12 billion by 2005.²

What Can Organizations Accomplish with Customer Relationship Management BPO?

Organizations use BPO in customer relationship management to accomplish a wide range of objectives at both the process and the enterprise levels. These include:

Process efficiency

- Consolidation, standardization, and integration of customer relationship processes and systems to improve costs and reliability;
- Access to customer relationship management systems without capital expense;
- Ability to handle capacity fluctuations;
- Access to less expensive resources and labor.

Process effectiveness

- Transparency, business discipline, and predictable outcomes in the customer relationship function;
- Access to global best-accepted practices in customer relationship management processes such as customer segmentation and insight;
- Access to customer relationship management expertise without the need to attract, develop, and retain noncore employees.

Enterprise effectiveness

- Improved customer sales, retention, satisfaction, and profitability;
- Rapid implementation of customer relationship management processes to take advantage of new business opportunities and changes;
- Improved management focus.

Organizations' objectives vary, and the type of outsourcing relationship necessary to accomplish these objectives must vary as well. A carefully crafted relationship that reflects each organization's unique circumstances and objectives spells the difference between success and failure. Here is how some organizations in our study, in addition to AT&T, have used BPO to accomplish a variety of objectives by tailoring relationships to their specific needs and circumstances.

AltaVista and a telecommunications firm reduce costs with conventional outsourcing.

AltaVista, an Internet search engine company, successfully uses a conventional approach to outsourcing. The firm's sole outsourcing objective was to reduce the cost of its e-mail customer support division. Executives turned to a niche provider, an India-based customer service outsourcer, for help. By taking advantage of India's lower wage ranges, the provider substantially reduced AltaVista's service costs. Despite the obvious geographic distance, AltaVista needed only minimal interaction with its provider to manage the relationship because the companies clearly spelled out responsibilities, service levels, and pricing structures in their contract. AltaVista was able to disseminate training materials, monitor service, and negotiate new pricing structures via the Web and telephone. Because the processes were performed AltaVista's way, most of the communication concerned training. This freed up management's time to focus on more strategic areas of the business.

A US-based telecommunications firm likewise eyed the cost savings available in offshore call centers hungrily. In order to achieve these at speed, it commissioned a large consulting

Exhibit 1: Range of Strategic Value for CRM Processes

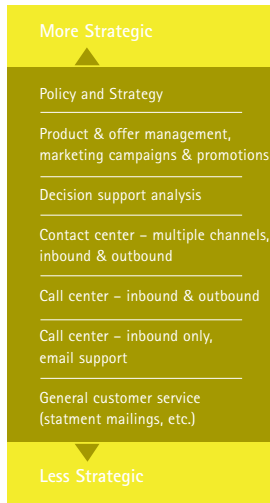


Exhibit 2: BPO Relationship Compass



firm to build, staff, and launch a new call center in India in only four months. The consultants established the center and transitioned it to Indian management when it was complete—along with the metrics, tools, and service level agreements to manage performance going forward. The result? The firm got more than it expected. It reduced per call costs by more than 50 percent, a savings of \$50 million over three years. In addition, the Indian workers compared so favorably with their US counterparts in education, service attitude, and loyalty that service quality improved as well.

Citizens Bank improves management focus with outsourcing. Like AltaVista, Citizens Bank uses conventional outsourcing. Unlike AltaVista, however, its objectives are not strictly cost-related. By establishing a contractual relationship with a call center provider to handle overflow call center volume, Citizens Bank has improved its ability to handle fluctuating call volumes. More importantly, however, Citizens Bank uses the outsourcer to take some of the load off its own contact center staff so that they will be able to spend time improving the processes. Once the staff identifies an improvement, Citizens Bank works with its provider to implement the change in the outsourcer's processes as well.

The United States Post Office uses outsourcing to centralize, standardize, and dramatically reshape customer care. The United States Post Office, with 200 million calls per year, has the largest intake of customer inquiries of any organization in the United States. Yet just a few years ago, postmasters in the 38,000 field offices had answered all customer calls. Because postmasters' first priority was delivering the mail, 60 to 70 percent of the calls in metropolitan

areas went unanswered. Moreover, the organization lacked standards for quality control and a common database it could use to analyze common customer complaints. Outsourcing enabled the United States Post Office to set up two shared customer contact centers, standardize processes, and use a common computer system to track customer contact and identify areas for improvement. Vice President of Consumer Affairs Francia Smith explains, "Having an outside provider helped us execute change. But it was only because we established a collaborative relationship with our provider that we were successful. The postmasters believe they and they alone own the customers. So our outsourcing provider and I worked together to get the postmasters involved in offering input, establishing metrics, and evaluating the new agents."

TiVo uses outsourcing to push the competitive envelope and gain capabilities at speed. TiVo, a startup television-service provider, formed a collaborative relationship with a solutions integrator to develop distinctive customer support capabilities quickly to take a new market by storm. TiVo's unique, rapidly evolving product and changing business model meant that it had unusual needs. Success would depend on helping each customer install, understand, and use the new product in a way that specifically suited them. Ordinary call center scripts and routine approaches would not do the job. To prepare the call center agents for this challenge, TiVo and its provider worked closely to jointly establish processes and develop innovative training materials and incentives to enable the agents to "think like a TiVo" customer. In addition, TiVo gave agents the product to use in their own homes. As a result, TiVo's staff has mastered the open-ended dialogues and investigative problem solving it

needs to provide real customer solutions. Using TiVo's CRM application, it is able to feed a rich description of customer problems and insight back to TiVo's product development and marketing organizations. This deep market intelligence enables TiVo to stay a step ahead of its competitors.

Using BPO Successfully

As opportunities for using BPO in customer relationship management expand, their potential value increases, but capturing that value becomes more challenging. Roughly half of the organizations outsourcing customer relationship management in our study felt they had only limited success in achieving their objectives. Why? The conventional wisdom about when and how to use outsourcing no longer applies. The successful firms craft and manage their relationships in a way that fits their unique needs and circumstances.

These firms start with selecting a provider capable of forming the type of relationship a firm needs to accomplish its objectives. Selecting the wrong provider can spell disaster. Take one entertainment firm that competes on customer relationships and service, for example. Despite its desire to achieve best-in-class processes through outsourcing, it slipped into established patterns of behavior when it picked a provider based on low cost alone. The provider's process was so inadequate, the firm had to take it over, set up a new department to train the provider and run a shadow organization to keep the edge on its own skills. Choosing a provider that met its unique needs and establishing a jointly-owned process would have allowed the organization to achieve its objectives more effectively.

Once they select an appropriate provider, executives must carefully learn to manage the relationship. Based on our interviews with 10 firms, we identified the strategies for success and the pitfalls that can cause failure for each relationship dimension of the compass.

Depth

Most firms already have well-established methods of working with providers in contractual relationships. These firms know how to set and assess minimum service levels and negotiate fee-for-service contracts. A few firms in our study employed an additional management technique, however, that led to substantially improved performance levels. These firms induced a competitive spirit in their providers by pitting them against other providers or an organization's own internal call center group. Logitech's director of customer service explains, "By outsourcing our call center operations to two separate providers and maintaining one call center in-house, we

keep the providers sharp. This way, service levels do not go down."

Collaborative or committed relationships, however, require altogether different management strategies. Instead of an adversarial relationship with a provider, they call for relationships based on trust, openness, and mutual collaboration. To do this, organizations will want to establish joint outcome-based business goals they can work on accomplishing together. AT&T, for example, has a gain-sharing agreement with its provider that enables both firms to share the benefits when they meet joint business goals. AT&T fostered even further collaboration with its provider by establishing a "co-sourced" operation comprised of senior executives and employees from both companies. Some firms even choose to take equity positions in their provider or establish a joint venture to seal a close relationship. When British bank Bradford & Bingley decided to outsource most of its back-office customer service and financial processes, for example, it chose to form a joint venture with its provider to achieve a greater degree of both commitment and control.

Breadth

Some organizations, like Citizens Bank and Logitech, are able to meet their needs successfully by outsourcing only a small part of the firm's entire customer relationship management operation to one or more niche providers. Because call center processes can be performed fairly independently by different organizations as long as a common computer system is used, niche providers can be a viable choice. When transformation of the entire function is on the agenda, however, it will be difficult if not impossible for a niche provider to transform the entire function. Firms like AT&T and the US Post Office, for example, have thus outsourced all or most of the function to a solutions integrator.

Organizations that outsource to a solutions integrator, however, are more dependent on that provider and more at risk if that provider underperforms. Organizations can reduce the risk of outsourcing to a solutions integrator by starting small. As trust builds and the relationship matures, they can shift additional processes to the provider. One organization in our study, for example, started by outsourcing inbound calls only. Over time the organization successfully added outbound sales calls, analytics, and customer segmentation, and eventually, parts of marketing program management.

Asset and Process Ownership

Organizations seeking cost reductions or the ability to handle capacity fluctuations typically ask their provider to adopt their

own processes or systems. This approach maximizes integration with the firm's internal processes and systems, and causes minimal disruption. Explains one executive, "Customer data is so important to us that we insisted the outsourcer use our own system. This ensures integration between the customer relationship management system and our other enterprise solutions. It also enables us to roll the data up anytime we want and get an unfiltered view of the customer."

Organizations that seek best-in-class processes or new technologies without capital investment usually adopt the outsourcing provider's way of doing things. Often, however, an organization can only achieve value from adopting their provider's way of working by changing their own internal processes—and the behavior of their own employees, as well. The US Post Office had to radically alter its own processes and the behavior of its postmasters. Likewise, when WebTV (since acquired by Microsoft) adopted its provider's processes, it had to change some of its internal billing processes. The firm established a framework for communication between its provider's call center and its own billing department so that it could answer customers' billing questions seamlessly.

The expanded nature of what is possible to accomplish with BPO, coupled with a sometimes daunting array of relationships possible to establish with a provider, can make it harder than ever to follow a well-trodden path to value. However, the rewards can be significant. Those organizations that carefully craft the right relationship to meet their needs, and learn valuable lessons from the experience of others that have tried new and different types of BPO arrangements, can often achieve stunning results. Business process outsourcing, used well, can help customer relationship management organizations achieve a wide range of strategic goals.

¹ For a detailed description of the relationship compass and how it can be used to successfully achieve an organization's outsourcing objectives, see Jane C. Linder, Susan Cantrell, and Scott Crist, "Business Process Outsourcing Big Bang: Creating Value in an Expanding Universe," Accenture Institute for Strategic Change, August 2002.

² Rebecca Scholl, "Business Process Outsourcing at the Crossroads," Gartner Group, 31 January 2002.

About the Institute for Strategic Change

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