[The Coming Disruption of the Contact Center Outsourcing Industry](https://thetaylorreachgroup.com/the-coming-disruption-of-the-contact-center-outsourcing-industry/)

By: Colin Taylor

The Contact Center outsourcing industry is a significant piece of the customer service and support landscape. The US market size was estimated by the Everest Group at between $78 and $81 billion dollars annually. Each day millions of calls, emails, chats, SMS messages and social media interactions are handled by Contact Center agents employed by these Contact Center Outsourcing (CCO) firms representing thousands of organizations and brands.

**The Status Quo**

The operating model for these CCO firms is well established for many years. It is primarily based on labor arbitrage. They source staff, train the staff and assign staff to support clients. The staff labor is resold either on a Full-Time Equivalent (FTE), per hour or per minute basis.

Volatility in the form of volumes spikes, seasonality or increased handle time (AHT) is the enemy. The CCO’s employ forecasts which are matched to the contractual KPI’s, most commonly, [Service Level](https://thetaylorreachgroup.com/calculating-service-level-in-light-of-customer-experience-and-ivrs/) (the percentage of contacts answered within a specified time-period, which often varies by channel), [Average Handle Time](https://thetaylorreachgroup.com/calculating-average-handle-time-in-light-of-customer-experience-and-ivrs/) and [Abandon rate.](https://thetaylorreachgroup.com/calculating-abandon-rate-in-light-of-customer-experience-and-ivrs/)

The contractual agreement between the CCO and the client sets out the parameters and obligations of the CCO in relation to this forecast. The obligations commonly include a responsibility of the CCO to achieve the contractual KPI’s on any volume between 90 – 110% of the forecast volume. On the client-side, the agreements release the vendor from their contractual KPI’s if the volumes on any given day or specified period, are outside of this 90 – 110% window. There are similar terms related to AHT. If the client does anything such as a new website, new invoice design, or new product introduction where it can reasonably be assumed will increase call length, is similarly exempted from the governing KPI’s. Ramp up periods also include exemptions as new staff take time to progress up the learning curve before they become proficient.

**The Prophet of Forecasting versus Forecasting Profit**

The forecasting process allows the CCO to identify and confirm the number of staff resources required to meet the expected demand, as shown in the forecast. The forecasting process for any given month or period often starts 90 days in advance with the client providing a volume forecast. The CCO then responds with their staffing estimate at 60 days out. There may be some back and forth and ultimately the forecast is ‘locked’ at 45 days in advance to the start of the month in question.

This locked forecast process works very well for CCO’s and for many clients where the volumes are consistent and stable. Organizations with high volatility in contact volumes or where call volume is driven by marketing activities such as flash sales, find this model less than ideal. In one case, a Taylor Reach client only had two days in a 90-day period where the KPI’s guarantees were in force. The volume in the other 88 days was outside of the 90 – 110% range and as such the CCO received a proverbial ‘get out of jail free card’ on attainment of the KPI’s.

This tried and true model is in place today with hundreds of CCO’s serving thousands of companies and brands. ***So, what is wrong with this model?*** Well, nothing really as long as the client and the CCO both understand the implications of the locked forecast and exemptions.

The ‘fly in the ointment’ is increasingly becoming the underlying ‘contractual metrics’. The most common metrics included in CCO agreements are all quantitative: Service Level, AHT, abandon rate etc. None of these metrics speak to the quality of the interaction. Over the past decade, there has been a significant increase in client organizations focusing on the quality of the interaction and the satisfaction of the customer or prospect with their interactions via the Contact Center. Clients are seeking contractual metrics focused on Customer Satisfaction (CSAT), Net Promoter Score (NPS) and First Contact Resolution (FCR). Adopting these qualitative metrics, however, represents a significant challenge for the CCO’s.

The traditional approach of matching labor to quantitative metrics with the protection of the exemption regime has worked well for CCO’s. The logic and math are straightforward, tried and true, if not elegant. Replacing the quantitative metrics with qualitative ones is a quantum shift for CCO’s. We all know intuitively that there is a relationship between hiring, training, coaching and systems and the resultant quality, however defined. Exactly what the relationship is between each of the inputs are to the satisfaction or resolution performance is however unknown. The implications and the questions they pose are daunting. ***What do we need to do to achieve a 92% FCR?  How do we ensure that CSAT stays above 87%?***  This is not a straightforward exercise.

**“You can have any color as long as it’s black”**

Clients want qualitative metrics and KPI’s. Some CCO’s have responded with limited offerings, such as internal quality scores, NPS, FCR and CSAT metrics that are subordinate to the quantitative KPI’s. One or more of these ‘new’ metrics can be rolled up under the heading of ‘Risk/Reward’. Unfortunately, the way CCO’s tend to deal with this challenge is reminiscent of Henry Ford’s famous quote, regarding customer choice and his vehicles, “You can have any color as long as it’s black”.

To better understand these second-tier metrics, let’s examine each one. Internal quality has been likened to leaving the ‘fox in charge of the hen house’. Now, this isn’t intended to disparage any CCO or their internal quality teams, but it must be acknowledged that there is an inherent conflict of interest in reporting on your own quality when a potential penalty or bonus may be the result.

In practice, no malicious actions need to be taken, as the operational challenges are often more than enough to severely limit any value from this exercise. Consider the following, first, CCO’s ask clients for quality monitoring forms and many clients do not have one of these. So, a default vendor provided form is employed. ***Does this really assess the key elements and ‘moments of truth’ important to the client and their customers?*** Well, that is an open question. The CCO’s are the experts after all, aren’t they?

Second, no quality program can be meaningful without alignment between the assessors, both within the organization and outside. Internally the quality assessors can calibrate between themselves. But calibrating with the client is much more challenging. Call recordings may need to be shared, each must be reviewed, and each must be scored against the agreed to criteria. An assessor may need to listen to each call 2 or 3 times, in the course of the evaluation. The CCO quality team and/or its leadership and the client representatives must then get together, review and discuss each of the calls and the evaluations awarded.

These discussions can often devolve into discussions about why something was awarded a 6 versus a 7 or why it is fully compliant and not partially compliant. The sample size of all contacts assessed is infinitesimally small (less than 1% of agent contacts). The calibrated calls become a sample of this small sample. Of course, every time someone on the CCO or client team leaves or moves onto another role, the calibration process must be reset. Similarly, CCO initiatives to capture CSAT (via post-call surveys), NPS or FCR, tend to fall under a limited risk/reward model. These metrics are not core, as with the quantitative ones, they are tier two metrics.

**When Risk-Reward is no Risk and All Reward**

Risk/Reward structures feel like an old Miller Lite Beer ad, ‘tastes great, tastes less filling’. They appear satisfying on the surface, but the deeper you delve the less value they deliver. To understand this ‘false positive’ better, let’s look at how CCO’s evaluate risk/reward models.

The CCO is focused on known and quantifiable revenues. A risk/reward model introduces a degree of ambiguity that can make the best vendor CFO uncomfortable. To mitigate this situation the CCO will assume that they pay 100% of all penalties 100% of the time. The net result is that the base CCO compensation rates will be based on being penalized 100% of the time. This means a higher base cost to the client and an ironic upside for the CCO if they happen to achieve the reward in any given period.

The preceding has attempted to illuminate the challenges with the prevailing contracting model employed by CCO’s. The next post in this series will address the options available to clients who wish to focus on qualitative measures and contractual terms that improve the customer satisfaction, FCR and NPS scores.