# From Outsourcing to CO-Sourcing

## Collaborate to Solve Today's – and Tomorrow's – Customer Service Challenges

*A well-defined, holistic, and collaborative labor ecosystem is key to successful customer service, especially when using outsourced service providers (OSP).*

H ang out in an airport lounge, and you're sure to hear passengers sharing stories of air-travel woes. Whether due to storms or logistical problems, a cancelled or delayed flight means travelers will interface with customer service. The nature and quality of those often-stressful interactions carry a great deal of reputational weight for carriers.

One Asia-Pacific airline has managed to stand out in this regard, notably outperforming rivals when it comes to customer service interactions. For some time now, they've done something different, and the results are more apparent than ever today in light of the travel industry's particularly turbulent times.

Having taken a proactive approach to selecting their global customer service partners, prioritizing cultural fit along with capabilities and cost, the airline has succeeded in building an effective customer-service ecosystem to meet variable demand with flexible resourcing and keep its passengers coming back for future flights.

A more intentional approach to sourcing, developing, and sustaining outsourced servicing partnerships (OSP) is the key to excellent customer service. This article will take a look at the pressing industry challenges and offer perspectives on engaging the effective solution: CO-Sourcing, a new angle on outsourcing.

## The customer-service conundrum

Contact centers have an outsized, lasting effect upon customer relations – for better or worse. While consistently pleasant interactions can cement loyalty, a single negative experience can alienate a customer and have reputational ripple effects as the anecdote is shared. That's why, in today's fiercely competitive market, companies must consider contact centers more than simply a necessary function; likewise, they must prioritize more than cost savings. Rather, contact centers should be viewed for what they are: an opportunity for meaningful customer interactions that create lasting value – and they should be optimized accordingly.

In order to do this, business leaders who understand the importance of contact centers as part of the omni-channel customer experience are investing in new capabilities and technology to improve performance.  While it's true that self-service technology has made great strides in recent years, human agents are still at the heart of customer-service delivery. Their problem-solving skills, language capabilities, resilience, attitude, confidence, and empathy make or break the crucial touchpoint with the customer.

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## The reality of the burnout trap

Yet today, employee burnout threatens. The intensity and complexity of the job is leading to record attrition rates. The pandemic and its subsequent economic pressures have made customer interactions more complex – and often more emotionally charged. Combine this with the loneliness associated with long hours of working from home, and it's easy to see why attrition is rising. BCG's 2022 survey of 320 customer service representatives from across the globe indicates that more than one quarter are considering leaving their current employer within the next year. Perhaps more tellingly, almost all of that group (96%) intends to move away from customer service roles entirely.

This level of turnover means that contact center leaders must constantly source and train new talent, so many are rethinking their labor strategy to achieve a more sustainable resource base. Within that same survey, we asked 180 customer service leaders about their top KPIs. 48% of respondents saw employee retention as one of their top 3 KPIs (Notably, this was higher in North America, where 63% of respondents named it as such, and where we see acute resourcing challenges). Globally, 61% intend to increase use of alternative labor models (e.g., outsourcing, offshoring, and gig working) to augment their resource.

## CO-Sourcing: a new angle on an old trend

Companies are starting to look at outsourcing as a way to solve the resourcing challenge. However, in order to achieve optimal results, a mindset shift is required in terms of how to approach outsourcing. It can't simply be about maximizing savings – it needs to be about building a collaborative relationship with OSPs. And the heart of that relationship needs to be a focus on the needs of the end customer.

Traditionally, customer service outsourcing has focused on cost reduction: companies look to service partners to benefit from their scale, ready access to lower-cost locations, and more rigorous management systems to achieve lower labor costs and better staff utilization. As a result, sourcing and management of OSPs has often focused heavily on continued cost reduction: lowering base-rates and pitting vendors against each other to cut out the bottom performers.

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While often delivering substantial short-term value, eventually this "burn and churn" approach becomes counter-productive as OSPs focus more on preserving margin than quality of service. Meanwhile, attrition among their own employees steadily rises. The net effect is that customers suffer from rushed interactions and lower "first time right" outcomes with less-experienced agents.

From outsourcing to CO-sourcing

The future of customer needs is evolving. Flexibility, quality and customer experience are becoming as important as cost. This calls for a new approach to outsourcing – an approach with which partners collaborate to achieve success on joint business outcomes, and with which the needs of the end customer are always at the heart of the relationship. We call this approach "CO-sourcing" - Customer Oriented Sourcing (the name also points to a higher level of collaboration than with traditional outsourcing). Exhibit 1 sets out the key elements of a CO-sourcing model:

## Exhibit 1: From Outsourcing to CO-Sourcing

| | From Outsourcing | To CO-Sourcing |
|---|---|---|
| Scope | Transactional, often silo'd activities | Broader scope of activities, partners having more end-to-end ownership |
| Commercial Model | Time or FTE based, partner primarily rewarded on efficiency | Partner more strongly rewarded on outcomes linked to overall value |
| Number of Partners | Many, highly competitive | Fewer, balance of collaboration & competition |
| Geography | Traditional onshore, nearshore, offshore locations | Blend of traditional with emerging offshore & nearshore locations |
| Working Models | Virtually all full-time, office-based employees | Portfolio of fixed and flexible working models |
| Relationship | Arms-length, based on formal business review process | Shoulder-to-shoulder, full transparency between all partners |

## 6 aspects of CO-Sourcing

Let's take a closer look at 6 core aspects of CO-Sourcing.

### 1) Scope: working with external partners on a meaningful portion of the value chain

A cost-based approach to outsourcing tasks varied partners with discrete services. One set of vendors handles tele-sales, for example, while another manages technical support. This enables tight control of scope and performance, because each needs to deliver limited processes and achieve easily-measurable KPIs. Unfortunately, it also drives operations into silos, yielding poor overall experience as customers with complex needs are passed from one partner to another. What's lacking? Overall ownership and accountability for resolution.

CO-Sourcing companies think in terms of end-to-end services. A service is a set of channels and processes to help a customer achieve a certain outcome, for example: onboarding

customers onto a new financial product, or providing full technical support for a new mobile device. A partner responsible for an end-to-end service can be measured and held to account for the customer and business outcomes of that service. The partner can also be called on to add value in ways that benefit all parties, such as by implementing technology and process change to improve services.

## Building scope with a CO-sourcing approach: how a European bank managed the transition to digital self-service

A European bank was struggling to draw customers to use its website and mobile banking app for simple transactions. The bank knew its contact center could be a powerful channel, with agents helping customers learn how to use the self-service digital tools.

However, they met resistance from their existing partner, who would be negatively impacted by the extended handling time needed for agents to work closely with customers in this manner, thus reducing their ability to handle call volume.

When outsourcing contracts were up for renewal, the bank elected to contract with the same partner, but to augment the relationship with an added angle. In addition to running the contact center, they partner would develop online services. In this way, the partner was specifically tasked with growing online engagement, and was not disadvantaged by a reduction in call volume.

## Building scope with a CO-sourcing approach: how a global retailer rapidly built new capabilities

A global retailer saw an opportunity in launching live chat for its e-commerce site to improve customer experience and conversion rates. They had some experience in voice contact centers, but none in chat, and wanted to avoid many of the pitfalls that companies experience when first launching a chat channel. They contracted with a partner to provide a fully-managed chat service, in which the partner provided the technology, the people, and the expertise to quickly bring a successful chat offering to market. The partner continued to develop chatbot capabilities to deliver faster response times for customers.

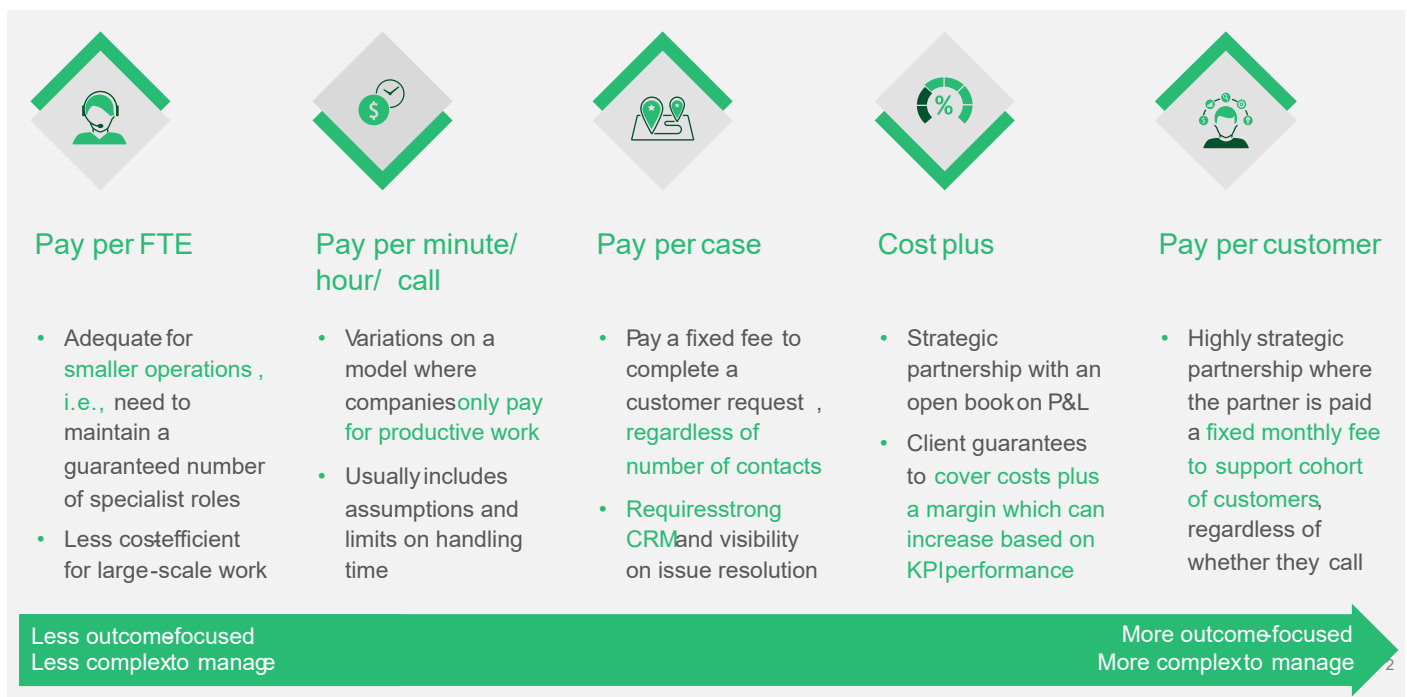## 2) Commercial models: rewarding shared outcomes

An OSP tasked with taking more end-to-end ownership should be incentivized to deliver better end-to-end outcomes. The most powerful tool for driving behavioral changes with outsourced partners is the contracted pay structure. Outsourcing is traditionally a low-margin business, with most operators reporting a 10-20% EBITDA margin. Variations to the price paid for contact center work can make a major difference – positive or negative – to how the service partner manages the account.

Outsourcing commercial models typically comprise a base rate, with an incentive/penalty applied as a percentage or fixed amount on top of the base rate. Given the centrality of the base rate, then, it is essential to be intentional when selecting the unit used determine it.

This creates implicit incentives for OSPs, which may need to be offset to achieve the desired result. For example, if a partner is paid per call, then the commercial model needs to ensure it is not rewarded for repeat calls from the same customer, or internal transfers between teams.

In recent years there has been some innovation in base rate models in an attempt to better align target outcomes with OSP profitability. See Exhibit 2 for some examples:

## Exhibit 2: Base rate unit a driver to shape incentives

| Pay per FTE | Pay per minute/ hour/ call | Pay per case | Cost plus | Pay per customer |
|---|---|---|---|---|
| • Adequate for smaller operations, i.e., need to maintain a guaranteed number of specialist roles<br>• Less cost-efficient for large-scale work | • Variations on a model where companies only pay for productive work<br>• Usually includes assumptions and limits on handling time | • Pay a fixed fee to complete a customer request, regardless of number of contacts<br>• Requires strong CRM and visibility on issue resolution | • Strategic partnership with an open book on P&L<br>• Client guarantees to cover costs plus a margin which can increase based on KPI performance | • Highly strategic partnership where the partner is paid a fixed monthly fee to support cohort of customers, regardless of whether they call |

Less outcome-focused
Less complex to manage

More outcome-focused
More complex to manage

### More accountability for higher level goals

The more innovative models engage OSPs as true partners with more accountability for customer-oriented goals. For example, in the pay-per-customer model, a service partner is paid a fee to look after a fixed cohort of customers, regardless of how frequently those customers make contact. If the partner can improve its "right-the-first-time" practices, it will reduce repeat contacts. Likewise, if it can train customers to use digital self-service for simple transactions. As such, the contract becomes more profitable.

This said, this approach requires careful attention to practical considerations: enhanced requirements for data sharing, collaboration, and governance depend on high operational maturity at both the client company and the OSP. For example, a strong incentive to reduce contact volumes is likely to drive first-order cost reductions, but may result in lower customer satisfaction and potentially lower sales volumes if partners aren't strategic about which contacts and customer segments to address.

## The power of incentives – the potential for high ROI

Many companies that have achieved high performance, well-rounded service outsourcing have chosen to pay a premium base rate, even by just a few cents – ensuring that this also flows to agent compensation. The result is happier, high performing agents. However, incentives beyond base rates are also critical. Historically, in our experience, companies have offered approximately 10% commercial incentives, but these are based on numerous (8-15) KPIs. Because the incentive hinges on multiple KPIs combined, the proportional impact of each is often too small to drive meaningful change efforts focused on any one of them.

Many leading enterprises are testing more ambitious incentives as high as 30%, but basing them on a balanced, focused set of 4-5 KPIs. Also emerging are asymmetric models, wherein the bonus opportunity is higher than the maximum penalty, thus rewarding over-achievement against the highest value KPIs. Aligning KPIs to overall business objectives creates the opportunity for a win-win: OSPs are paid more for outcomes that generate value for the client's business. For example, rewarding First Contact Resolution creates value in the form of fewer repeat calls and happier customers.

There is also the opportunity to get creative with more targeted incentives directly to agents to drive very specific outcomes, particularly around behavioral change. Some examples we have seen include:

- Recognition schemes and non-monetary rewards to recognize individual and team successes in customer service

- Commissions for sales, retentions, lead generation, and signing customers up to digital services

- Promoting retention through higher rates for longer-tenured staff, recognizing learning curves and rewarding experience-driven productivity

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## 3) Number of partners: fewer, deeper relationships

Implicitly, this approach results in fewer partners, but savvy customer service leaders have identified additional benefits of working within a smaller ecosystem. Partners are willing to provide more investment in hiring, training and retaining the right talent, and sometimes even capital investment in IT initiatives.

Even with a smaller pool of partners, some healthy competition can be maintained. Services can be split between partners by geography, language, customer segment etc. and it is still possible – if required - to compare like-for-like performance. One common approach is to retain a core set of scaled partners and augment these with one or two smaller-scale challenger brands. The challengers typically take less than 20% of the overall business, but have much more to gain from successfully hitting their targets. Challengers can provide innovation and become the pace-setters for the overall ecosystem.

## 4) Geography: stability through diverse operating locations

During the pandemic, some traditional offshore locations – the Philippines especially – were not able to meet the infrastructure needs of an at-scale work-from-home model, driving up attrition and leading many companies to focus on re-shoring. This increased demand for home-grown talent, coupled with wage inflation and changes to work preferences since the pandemic, has constrained the onshore labor supply and is resulting in service delivery shortfalls in onshore centers.

> *As traditional talent markets become saturated, companies with a diverse geographic mix of contact centers are finding it easier to find sufficient resource to match customer demand…*

To ensure stability of labor supply, larger customer service organizations are looking to diversify the mix of locations from which customers are served. In Europe, where service providers must have fluency in numerous languages, OSPs are establishing campus-style operations in attractive Mediterranean cities, where people from all over Europe are invited to live and work. In traditional offshore countries like India and the Philippines, OSPs have grown bases in Tier 2 and Tier 3 cities to develop the next wave of talent.

As traditional talent markets become saturated, companies with a diverse geographic mix of contact centers are finding it easier to find sufficient resource to match customer demand, and as we continue through a period of economic and global political uncertainty, this diversity will become a greater source of competitive advantage. In practice, this usually means augmenting existing locations with outsourcing services in more diverse and less-tapped locations where appropriate talent is available. In the last few years, we have worked with OSPs setting up operations in Sub-Saharan Africa, South-East Asia, Chile, and Peru. Less-tapped labor markets offer some unique benefits, including:

### Lower attrition due to less competition for talent

Attrition is high in saturated outsourcing markets because employees can easily switch roles and will do so for relatively marginal pay or benefit improvements. OSPs tapping new markets can develop stronger brand affiliation and employee retention.

### Opportunity to build talent pipelines to deliver the right mix of skills

Newer labor markets are characterized by good quality, improving standards of education, but also by limited career opportunities. OSPs who choose to set up in these regions will often invest in skill development, helping the population improve employment prospects while building a talent pipeline, sometimes through a strategic partnership with a client, that sees the benefit of a dedicated workforce.

### Opportunity to support economic development in a region

As a people-heavy industry, CO-sourcing can be a powerful engine for regional job creation, as well as development of transferrable technical and communication skills. Government initiatives to support economic development in a region often include financial incentives that offset the risks of setting up operations in a new labor market.

Of course, entering less mature geographies for customer service is not without risk, and calls for due diligence into the technical, social and political infrastructure of an area before making firm commitments. There will always be a trade-off between availability of experienced talent and competition with other providers. We recommend a portfolio approach – in which the full estate of contact centers covers a mix of new and traditional locations – as well as making use of local knowledge and market expertise.

## Profile: AT&T

According to Maria Phillips, AVP Customer Service for AT&T and expert in labor strategies, the company is engaging two new up and coming areas: Egypt and Sub Sahara Africa. The new regions present both opportunities and challenges.

Egypt serves as a technological hub for the Middle Eastern region and is a chosen destination for the contact center companies. There are potential benefits for vendor companies. With the low cost of living in Egypt, vendors are able to offer very competitive rates to AT&T. Also, the Egyptian workforce has a grasp of multiple languages including Arabic, English, French, and German; moreover, the regional accent is considered neutral, a plus for service calls. Given the tech savvy population in Egypt, vendors are able to handle more technical and complex contact center work and market the experience of their workforce who view contact centers as a potential career path, helping the vendor achieve stronger performance.

South Africa is already a growing market for outsourced service centers, with the benefits of lower wage costs and an educated, English-speaking workforce. However, it presents a good example of the challenges facing organizations that seek to establish operations in yet-untapped regions. The company continues to work through potential risks in emerging markets.

## 5) Working models: accessing flexibility and expertise

Beyond geography, it's also important to consider innovative partners offering models with greater access to specific expertise and/or more flexibility. Since the pandemic, the old ideas of customer service agents densely packed into large contact centers have been challenged, and technology has allowed new models to work at scale.

## Work from home

Work from home was the reality for many customer service operations during the pandemic. The model has offered the opportunity to hire a more diverse and geographically distributed workforce, with greater scheduling flexibility due to the lack of commutes. Many companies have elected to continue the model for some portion of their workforce, but they are discovering the challenges of hiring, motivating and retaining remote employees. New employees in particular value side-by-side support, and benefit from in-person coaching. This typically requires some onsite work supported by mature collaboration tools for remote. OSPs can provide expertise and infrastructure at scale to help unlock the benefits of remote working. For example, one Philippines-based service partner is building dedicated employee experience centers to allow for onsite training and coaching, and as a backup worksite in case connectivity fails for home workers.

## Gig working

Gig platforms take the home working concept a step further by contracting with workers on a per-case basis, without fixed hours or schedules. Depending on the reason for contact, a customer's call or chat is routed to an available gig worker who answers the question instead of a full-time contact center employee. While not yet suitable for all interactions involving confidential customer data, this model is attractive due to its flexible capacity to address technical support queries about consumer products and software, or provide support with an e-commerce purchase. Companies that have pioneered this model have found that they can attract gig workers from among a product's fan base – natural experts intrinsically motivated to help, and thus able to offer an enhanced customer experience. A large consumer technology company has found that customer satisfaction is consistently higher for product support requests served by gig workers, compared to permanent teams. Whilst the cost per contact is slightly higher, the overall cost of ownership is 20% lower due to substantially higher "first time right" outcomes achieved by the gig partners.

## Customer Service as a Service

In this model, the customer service agents are full-time employees of a service partner, and may work from home or an office. However, they are not dedicated to providing service on behalf of a single client. Each contact they handle could be on behalf of a different company, and their screen will automatically update to reflect the brand they are currently representing. Clients benefit from capacity flexibility within a controlled environment. While the model is less suitable for large-scale, complex customer service needs, is has proved successful for small, fast-growing digital businesses. Likewise for non-core operations within larger organizations, where customer demand can be unpredictable, and in which customer contact reasons are relatively simple but not at sufficient scale to be fully automated. One online "sharing economy" business makes use of these services to provide customer support on pilot implementations of new products, to avoid disrupting day to day operations.

These models – especially when used to augment traditional models - are increasingly important to provide a stable supply of talent into customer service. However, to be successful, they require the reengineering of the operational value chain. There are significant risks associated with using inexperienced vendors providing these services. Companies must carefully evaluate this on a region-by-region basis, because infrastructure, employment markets and individual economic circumstances of agents may change. The key criteria to demand for best practice that we have seen are:

## Effective onboarding, training and motivation of a remote workforce, for example:

- Hiring specifically for agents who wish to work in a remote/hybrid setup

- Sufficient onsite time for new employees to learn processes and absorb the culture: ideally 3-4 days a week onsite for the first few months

- Dedicated tools to simplify remote coaching, collaboration, and performance management

- Retraining of all supervisors to manage remote teams effectively

- Regular onsite check-ins and refresher training: our experience shows that 2 days a month is a good target

Mature and secure infrastructure to suit long-term remote desking, for example:

- Secure and reliable internet performance

- Ensuring suitable work-from-home for each agent, including investment in suitable equipment to facilitate long shifts at home on a permanent basis

- Strong asset protection tools, processes, and policies

- A human-centric approach to information security that goes beyond surveillance of agents

## 6) Relationship: fully transparent and collaborative ecosystems

Successful service delivery under a co-sourced model requires a deeper, more strategic relationship between partners that goes beyond the typical commercial relationship with an OSP. Successful implementations stand out because of collaboration not just between the core company and the service partners, but also amongst the competing partners themselves to drive an end-customer-centric outcome, leading to a true ecosystem. The governance and day-to-day operational relationships in a co-sourced model are characterized by the following features:

### Transparency and open access on performance and relevant operating metrics

Shared data across an ecosystem helps partners to plan, run, and continually improve operations; moreover, it allows for open, healthy competition between partners. Contracts typically ensure confidentiality between partners as well as mandating the availability of certain types of data. Companies will share detailed information on forecasted demand, contact drivers, changes to upstream processes, and technology roadmap. In return, OSPs will share performance data on topics including resourcing, scheduling, service levels, quality, and employee satisfaction. A relevant degree of transparency on operating metrics that drive productivity also helps both parties avoid unnecessary cost and seek better use of resources.

### Always-on communications

Communications between parties are not restricted to formal business reviews or periodic operations meetings. In addition to these, there often exists a continuous line of communication using collaboration tools. This enables operational problems to be solved, new opportunities to be snapped up, and innovations to be tested – all without waiting for the next formal meeting. For example, one European telco has dedicated videoconference suites installed in all partner sites, which are continuously connected to each other. Partners can simply walk into the room and start talking to each other.

### Co-locating (where feasible) and job swapping

Even in a world of advanced collaboration tools, face-to-face interactions can be more effective. It has long been common practice for companies to embed their own employees in partner sites to manage the day-to-day relationship, but there are further opportunities to get

creative with co-location. One Asia-Pacific airline enabled a team of agents from one of their partners to work from their head office. The customer service team interacts with sales, marketing and digital teams at the company to better understand upstream drivers of customer requests; likewise, to build better end-to-end experiences.

Where full co-location isn't practical, collaboration can also be nurtured by sponsoring job-swaps between organizations. For example, one OSP can run quality audits on another service partner's processes, and vice-versa. In these circumstances, separating commercial and operational objectives may be a critical enabler.

### Joint governance on change plan and technology roadmap

OSPs benefit from gaining a better understanding of the change roadmap for the overall organization. It helps them better plan for hiring and training of resources; additionally, it equips them with a better sense of long-term strategy and how they can contribute. Service partners can offer valuable input when building a technology roadmap, due to both their understanding of how operations really work on the floor, and their knowledge of best practices in customer service across industries.

## Building the ecosystem: an agile approach to sourcing

All of these elements require companies and their service partners to build a deeper level of trust than would normally exist in an outsourcing relationship. Not all partner companies can bring sufficient maturity, so choosing the right partners requires careful consideration, as does the negotiation of commercial terms.

We have found that the most successful CO-sourcing systems start with a sourcing process that is more agile than a classic RfI/RfP/RfQ process, and focused as much on relationship and cultural fit as it does on capabilities and price. The key principle behind this process is to get a small group of prospective partners to work collaboratively on a series of mini challenges, in order to test their capabilities in scenarios that are as close to real life as possible.

For example, the Asia Pacific airline mentioned at the beginning of this article selected its global customer service partners by asking them to run a series of workshops on topics including use-cases for automation to improve overall customer resolution time, improving customer experience in the complaints handling process, and determining which commercial models would enable partners to work together towards shared goals. The airline provided some data about their current operations, and made key people from customer service, marketing, digital, and IT available for the workshops.

### Benefits over a more traditional sourcing process

This approach offers the following benefits compared to a more traditional sourcing process.

### Realistic operational scenarios, not the polished sales pitch

The agile sourcing approach tests potential partners on their actual capabilities, not just what they promise in a presentation. It helps avoid decisions that are unduly influenced by a polished performance.

## Interaction between operations leads

Workshops require operational teams to interact beyond discussions with commercial account managers. Companies can test relationship factors like understanding of business context, flexibility, and communication.

## Greater transparency on cost drivers

OSPs become more open about the true drivers of cost for their operation, yielding a more transparent assessment of cost vs. value delivered. This can avoid contract clauses that drive unnecessary cost (e.g., stipulating a fixed ratio of coaches to frontline agents).

## Set the relationship right from the outset

This approach makes clear to the prospective partner the expectation of a transparent, collaborative relationship in both directions. Thus, the onboarding and ramp-up process with new partners will run more smoothly, because the terms of the relationship have already been established.

# Now is the time to build a future of successful customer service

Even though contact centers are always evolving, the touchpoints between customers and human agents remain core to customer service. This human-to-human interaction is critical for shaping brand perception. A well-defined, holistic and collaborative labor ecosystem is a key to a company's success, especially when using BPOs to serve its customers.

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Consider the Asia-Pacific airline mentioned at the start of this article. When the next business meeting or holiday comes around, there's a good chance repeat travelers will look first to the airline that provided their most positive experience – especially if that experience included managing complications or disruptions. And as for new travelers, there's no doubt the customer service track record will play into their decisions.

There's no question that such reputational advantage can go a long way toward building business value in any industry – and the future of successful customer service belongs to those willing to innovate.