Come home, stay home?

Self service as an on-shore customer service option

by
Adrian Thompson
Financial Services and Logistics specialist with Eckoh

White Paper

Eckoh

Thirsty for cost savings UK business has, in recent years, placed large numbers of contact centre agent seats - 32,000 in the past 12 months alone - in locations across Asia, Africa and Europe.

But there's mounting evidence to suggest that the offshore juggernaut is beginning to slow, or may even be shifting into reverse. Boardroom whispers are turning into an audible rumble; companies, disillusioned by their foreign experiences, are voicing a desire to return home.

But is a return economically viable, given that the need to reduce customer service costs, which fuelled the offshore drive in the first place, has grown rather than diminished? Analysts have long predicted that the 'offshore boom' would be followed by a 'self service boom'; that automation would emerge as a cheaper and less risky alternative to relocation. This paper examines the validity of that prediction. Reviewing today's offshore business climate it asks whether self service can deliver the economic goods but, more importantly, whether today's consumers will be any happier talking to machines than to the offshore agents they appear to distrust.

Turning sour? The offshore experience

In the past year several leading UK brands - not least Powergen, eSure, Norwich Union, Newcastle Building Society, ShopDirect and Lloyds TSB - have gone beyond talking about bringing their call centres home to actually do it. All but one have cited poor customer service quality as the principal motive for their U turns. Others, who have never ventured offshore, NatWest, Nationwide, Royal Bank of Scotland and Alliance & Leicester among them, are promoting their dedication to UK based customer service as a key selling point, obviously convinced it's what their customers want to hear.

It would appear, then, that despite the undeniable economic benefits of offshore - savings of 40% are commonplace - companies are increasingly unnerved by poor service levels and the mounting customer discontent they inevitably engender.

They are right to be so. A consumer survey undertaken for Alliance and Leicester has revealed that 9 out of 10 (87%) Britons would prefer not to have their financial services needs serviced from offshore. It also indicated that, among customers of banks who had placed contact centres offshore, 51% believed service had deteriorated.

Given its UK based service proposition the cynical observer may conclude that Alliance & Leicester's research reinforces a self interested bias. However, contact centre research specialist, Contactbabel has no such axe to grind. Its report into offshore's impact on brand and profitability states that 74% of Britons who have personally experienced offshore customer contact feel more negatively towards the company as a result. They are also 4.5 times more likely to defect.

Pull out: in late 2005 research among UK consumers by Harris Interactive found that 47% of adults have less respect for companies that outsource call centres overseas and 50% don't trust them with their personal and financial details. Almost a third (31%) have either refused to give their business to or have switched away from companies because of their offshore operations.

Nor is it safe to assume that this consumer rejection is entirely a result of xenophobia or bigotry among the UK public, as some offshore service providers would have us believe. In its 2006 research customer management consultancy, CM Insight, asked decision makers from 25 organisations that had moved service operations offshore about their experiences. It discovered that, though their cost saving expectations had certainly been realised - even exceeded - service quality had actually declined in 75% of cases.

Service quality in decline

Metric	Improvement	Deterioration	No change
Call quality score	0%	32%	68%
Customer satisfaction score	16%	30%	54%
Mystery shopper Score	0%	16%	84%
Transaction accuracy	15%	0%	85%

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But what are the options for companies who, seeing their customers' loyalty in jeopardy, are prepared to return home - or to reject offshore's temptations out of hand? Can self service really provide a viable alternative?

Self service - the economics

There's no question that dealing with customers via self service channels is cheaper than using live contact centre agents, irrespective of their location. In the UK the average cost of a live agent telephone call is around £1 per minute, in India that figure drops to around 70p. However, the average cost via a self service channel - web or telephone based - can drop to 10p per minute or less.

In recent years the internet has dominated the self service environment, kick-started by the online business models of the dot.com revolution and adopted wholesale by mainstream business in its wake. Indeed, many would say that the true and lasting legacy of the dot.com boom-and-bust was to prove to traditional business that customers would embrace the self service principle with enthusiasm.

The web, however, has its limitations. Internet access, though it continues to grow rapidly, is not yet ubiquitous; 38% of UK households are yet to get online. And the number of individuals who have internet access when on the move - via mobile devices - is still infinitesimally small at less than 9% of the population. That means self service via the internet remains a largely desk-bound activity within an increasingly mobile society.

Most analysts agree that the real self service revolution will happen via the telephone, and through automated speech recognition (ASR) in particular. Contactbabel's 'UK Contact Centres in 2007 ' report suggests that, at present, penetration of speech technology is running at less than 10% but that the number of calls handled by ASR will increase 14% annually in the years to come.

"Speech recognition is one of the killer applications of the next five years and will have more impact on the UK contact centre industry than offshoring. The industries most interested in benefiting from early adoption will be banks, telecoms and utilities companies."

UK Contact Centres in 2007: The state of the industry, Contactbabel

In the past high capital expenditure costs have inhibited the use of speech recognition. Like other self service applications - and, for that matter, offshore - it is most attractive for organisations with high volumes and where the cost of handling the call exceeds the business value it represents. In this scenario the need to reduce cost is imperative, but for speech-based self service to work well the technology infrastructure on which it depends must be robust enough, and the number of phone lines linked to it large enough, to accommodate the maximum number of callers ever likely to contact the service. Quite simply, the cost of buying and maintaining such an infrastructure has been cost prohibitive.

However, newly emerging hosted services, in which the telephony and technology infrastructure is centrally owned and managed by a third party, provide a cost effective alternative.

The average upfront investment cost for an 'own-and-operate' self service speech solution - including hardware and telephony lines - to handle around 70,000 calls per day with flexibility for a 20% peak will easily exceed £1 million. With the hosted model not only is this considerable capex cost largely negated but, thanks to the pay-as-you-go model adopted by most hosted suppliers, ongoing operating costs are directly pegged to call transaction volumes, providing valuable operational flexibility.

Boardrooms are likely to find this low and variable operating cost model infinitely more palatable than offshore, where upfront investment costs can be both high and unpredictable. The typical cost of investigating, building and resourcing a far flung contact centre of, say, 500 seats will typically exceed £3.3 million, based on the actual per head transition cost of £6,641 reported in CM Insight's 'The Real Cost of Offshore' report. The same report also reveals that, on average, the real cost of migrating a contact centre operation from the UK to an offshore location exceeded company's business plan projections by more than one third (37%). Certainly the cost - financial and in terms of management time - of managing a far-distant business operation has taken many by surprise.

> **"While day to day operating costs were better than expected for the organisations in our study, the actual cost of the offshore move has taken many by surprise. On average the cost of migration was more than one third (37%) higher than companies projected in their business plans and cost justifications. While they projected their per-head cost to be £4,855, the reality was £6,641."**
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> *'The Real Cost of Offshore: A sting in the tail?', CM Insight, 2006'*

Even with the promise of 40% cost savings, the decision to offshore requires a considerable and increasing bold act of faith; especially at a time when operating costs in many maturing markets look set to rise, casting a shadow of doubt over long term saving projections.

As long ago as 2005 the Indian Government predicted a shortfall of 260,000 in the skilled workers needed to sustain growth in its contact centre market by 2009. The growing skills shortage is causing both salaries and attrition rates to spiral. Agent salary increases of between 14% and 20% have been observed over the course of 2005 and 2006, while a 2007 report from global sourcing consultants, TPI , has reported attrition in India's BPO industry growing at 50% per annum over the last three years.

> **"There is tremendous opportunity for value leakage; if you don't pay enough attention upfront to the realities of attrition you will end up with higher costs, lower quality deliverables or, worse, a project that goes bust."**
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> *Paul Schmidt, Partner, TPI*

While increasing numbers are turning away from the risks presented by maturing offshore markets they are turning their attention towards emerging locations across Africa, Asia, central and Eastern Europe. However, there are many that question whether, over the long term, these will be able to offer any greater market sustainability.

The low and predictable pricing models available for self service - especially speech based - solutions can, then, present a convincing and demonstrably lower risk alternative to offshore. Datamonitor's Voice Business Analyst, Daniel Hong, claims that, while companies can save 25 - 35% by moving a US contact centre to India, the same service provided through speech-based automation will be between 15 - 25% lower than an Indian agent operation.

Consumer acceptance - the acid test

But is there real evidence that consumers will be any happier being served by machine than by an offshore agent?

The answer is, increasingly, yes.

According to a global study by Genesys Telecommunications Laboratories 89% of companies that have implemented speech based self service claim to have achieved ROI within 12 months of implementation. More pertinently still, 62% of them say customer satisfaction has increased within the same time frame.

> **"The popular offshore markets, such as India and the Philippines are rapidly maturing, resulting in increasing wages and higher turnover rates. This is likely to nullify labour arbitrage benefits and thus decrease the value proposition for businesses to open an offshore centre. This has led to sharpened focus on automating phone-based transactions through speech recognition technology."**
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> *Daniel Hong, Voice Business Analyst, Datamonitor*

There's clear evidence that consumers expect channel choice. That means organisations that fail to provide a range of channel options run the risk of disappointing, frustrating and alienating their customers. Telephone, mobile and web based self service solutions are not only acceptable to consumers, but in demand.

And there are obvious benefits attached to automated services. Because they're available 24 hours a day, without the need to queue for an agent's attention, they provide instant accessibility and speedy resolution; service attributes which, survey after survey confirms, consumers value most. This level of availability surely weakens, or even makes redundant, the 'follow the sun' argument for agent availability that the proponents of offshore have long and vociferously advocated.

Self service copes easily, too, with call volatility. It's when call volumes spike, either because of an emergency event or a time sensitive promotional offer, that large numbers of customers are most anxious to make contact. Unfortunately, that's when most organisations are least able to respond. Frustrated callers are forced to hang up on contact centres overwhelmed by calls. Automated services however, providing they are reinforced with the appropriate number of telephone lines, take such disruptions in their stride. Indeed, several of the most innovative recent speech based solutions have been specifically designed to cope with volume peaks. Northern Ireland Electricity, for example, is using speech automation to provide service restoration information to customers during power outages. Using caller line identification technologies alongside automated speech, the service tailors the information it gives according to the caller's actual location, determined by their telephone number.

But it's the sheer flexibility of what can be achieved that is the greatest strength of the self service option. While many organisations focus on providing information based services, others - from finance companies to cinema chains - are using automated services to provide transaction-based services that allow callers to complete a task or make a payment.

An automated card payment system for Hitachi Capital Consumer Finance has processed over £30.5m worth of customer transactions since its introduction in June 06. Given the level of insecurity today's consumers feel about sharing financial data or completing transactions with offshore contact centre operations, it's hard to imagine that this service could be offered achieve the same degree of user acceptance via the offshore model.

And its not just consumers that are nervous about data security. For organisations considering offshore locations this can be a major cause of unease. Here, too, the self service option can provide greater peace of mind. If they choose to build their own self service applications their data need never leave their own control and, if using a hosted partner, only one organisation, with a strictly limited number of individuals, has access to it rather than a large, distant and increasingly transient agent workforce.

For the financial services industry in particular, speech automation may have one more compelling attraction. As Contactbabel's 'Finding the Balance' report notes with foresight, speech is "the only biometric that can be used at a physical remove".

Rising identity theft

An estimated 100,000 victims a year in the UK alone - has made fraud prevention a board level priority with the contact centre often seen as a weak link. Recent research by The Tower Group reveals that any financial services institution exposed as the victim of criminal infiltration, or publicly reprimanded by the regulator for lack of diligence in crime prevention, can expect to see its market capitalisation fall 200 points or more. It will typically take 137 days - more than four months - for values to recover and the market will only be reassured by drastic action; often including the 'hasty resignation' of at least one board director.

So, its vital that organisations do all that they can to prevent fraud - and that they are seen to be doing so by their customers. Though such applications are yet to emerge, there's evidence that a number of technology providers are actively developing voice automated systems that will provide secure identity verification - either to replace or reinforce traditional password and PIN mechanisms. This will be a significant step forward in protecting both consumers and the businesses that serve them.

It could also represent significant cost savings. According to Contactbabel it takes an average 22 seconds to verify a customer's identity - a time-loaded task that costs the UK contact centre industry around £820 million a year.

The way forward

So, we can be confident that self service applications can match or better offshore's economic performance without compromising the customer experience. We can also be reassured that there is a consumer appetite for self service; not merely a willingness to accept it but an actual desire for it to be provided as part of a choice-rich customer service portfolio. Consumers will choose to use self service when it suits them best; when it provides the most convenient and immediate means of getting their questions answered and their service needs met. The challenge for organisations is to identify with accuracy the circumstances in which consumers will choose automation over and above live agent and then build their service channel strategies accordingly. For example, most people will choose to speak to an agent where the transaction they wish to complete is highly emotionally charged - such as a life insurance claim - or when they require consultative advice.

By the same token, wise organisations will consider the circumstances in which they want to maintain the human touch. For example, if the reason for the call belies an intention to defect - a large cash withdrawal or a request to cancel a policy - ensuring that it's dealt with by a suitably prepared agent will retain the potential for positive intervention. The key, then, lies in achieving the appropriate blend of human agent and automation to deliver the best result for both parties.

Caution must also be taken when designing self service applications. If they aren't intuitive to use and easy to navigate, callers will conclude that the technology has been put in place to act as a buffer rather than a conduit between themselves and the organisation they need to contact. If they are to be embraced with enthusiasm, self service solutions must not only allow callers to do what they need to do, they must do so in a 'human' fashion. Designing such services is a specialist skill that few organisations are likely to possess, but solution design skills are often offered alongside technology by hosted service providers. In the best cases conversation specialists, script writers and psychologists are used to develop scripts and interactions that complement rather than suppress natural human speech patterns and decision making behaviours.

These experts begin by assessing the process they are trying to automate and how successfully it is working at present. If the process is currently managed by live agents they will listen to their calls and create a detailed map of the way callers behave; what questions do they typically ask, how and in what order? Even more importantly, they assess the motivation for the call - what does the caller really want to know and what's the difference between what they say and what they actually mean?

Having developed working scenarios, dialogue designers will test them in focus groups and small scale pilots before rolling them out in industrial strength deployments. And, once a solution is deployed, the learning doesn't stop. Careful monitoring and tuning, especially in the early weeks, is essential and, once again, the focus must be on the caller, rather than the technology. A word recognition success rate of 98% for a speech recognition service will offer scant comfort if 80% of callers are failing to complete their transactions.

While hosting provides experienced solution design skills it also allows services to be developed and implemented within very short timeframes (typically measured in weeks rather than months) and, thanks to the absence of an upfront technology investment requirement, to deliver ROI virtually immediately. This makes it an attractive proposition for organisations that would typically spend upwards of a year establishing an offshore operation and between six and twelve months achieving a steady operational state. It would appear then, that there are several good reasons to come home and stay home.

Seven reasons to opt for self service

1. Cost savings potential exceeds offshore, with faster implementation and ROI
2. Consumers actively demand channel choice; they want to self serve but are wary of offshore agents
3. Hosted self service options negate high and unpredictable capex costs associated with offshore
4. Pay-as-you-go operating model provides economic certainty, pegging operating cost to business activity - even during volume spikes
5. Freedom from wage volatility and rising attrition in maturing offshore markets
6. Trusted to handle all interactions - from service calls to financial transactions
7. Reduced data security exposure

Seven steps

If you're planning to introduce telephone self service, here's a seven step guide to preparing your approach:

1. Know what you're trying to achieve. Examine how your processes work today and how they'll need to change when automated. Map how callers behave; what they ask and how, then build your solution to accommodate that.
2. Determine success measures at the outset that balance cost reduction and improved customer satisfaction. And don't be blinded by technological success. High recognition accuracy has little value if callers don't get what they want.
3. Take a human approach. If a service works people will use it, if it doesn't they'll find ways of circumventing it.
4. Think twice before going it alone. Designing a good speech service demands a rare combination of technological capability, advanced dialogue design skills and linguistics expertise that your organisation is unlikely to possess.
5. Don't get stuck with a short term solution. Speech technologies and the standards that govern them aren't standing still. A hosted solution that removes technology upgrade and capacity expansion headaches may be the best way forward.
6. Take a holistic approach. Your speech solution and the language it uses must harmonise with other communication media.
7. Test, learn and refine…All self service applications need constant review if they're to evolve in line with changing caller behaviour and expectations.

Adrian Thompson is a Financial Services and Logistics specialist with **Eckoh**,
one of Europe's leading providers of hosted speech automation and other self service solutions.
Contact **Adrian** on **+44 (0)1442 458397** or email **adrian.thompson@eckoh.com**.

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