OUTSOURCING: THE DIGITAL TRANSFORMATION

THE DIGITAL WORLD HAS TRANSFORMED HOW CUSTOMERS AND CITIZENS INTERACT - YOUR OUTSOURCING CONTRACTS ARE UNLIKELY TO HAVE KEPT PACE TO MAXIMISE THE OPPORTUNITIES THAT THE GROWTH OF DIGITAL CHANNELS AND AUTOMATION HAS CREATED WITHIN THE OUTSOURCED ENVIRONMENT.

INTRODUCTION

Outsourcing has been around for a long time – in the customer contact industry, for some thirty-five years. Throughout this period it has been governed and defined by broadly consistent and well understood drivers, conventions and presumed definitions of success. Yet the digital revolution and the rise of automation (in its various guises as Artificial Intelligence and robotics) has fundamentally changed the outsourcing landscape – what outsourcing can deliver, how it should be contracted and how it should be assessed.

This paper will demonstrate the true potential of outsourcing as the opportunities it offers and the risks it presents have changed dramatically in recent years. As a result, customer management outsourcing practices play an important role in digital channel adoption and business transformation and therefore, in order to maximise the potential of outsourcing, the decision-making process, along with contract design, implementation and governance, needs to change.

The outsourcing decisions or contracts put in place in the past are likely to now be redundant and should be re-assessed. The rise of 'transformational outsourcing' has proved that the best outsourced service providers (OSPs) have the ability, not just to replicate their clients' processes at lower cost, but to transform those processes in order to deliver real and beneficial change – even shifting the contractual responsibility for the acceleration of innovation and new technologies from the client to the OSP. However, this demands a new type of outsourcing relationship in which the client expects the OSP to introduce new technologies, processes and customer engagement approaches.

This is a long way from traditional outsourcing. Approaches to contracting, remuneration and partnership must be rebuilt from the bottom up.

THE DIGITAL CUSTOMER

Consumers now have access to significantly more information via an expanding network of digital channels, giving rise to a more informed consumer. The informed consumer can research products and services extensively before making contact; they can seek opinions and recommendations via their own social network and via a broader community knowledge base. Customers want to take control of their online accounts, make payments across multiple channels 24/7, have a choice of channels depending on their personal confidence and preferences, and seek quick responses to their enquiries when on the move.

For years customers have been forced to make contact at times organisations dictate, and frequently via systems that support an organisation's preferred process. Today customers are unwilling to be constrained or dictated to. They expect to be able to interact across multiple channels, as they choose, and for their needs to be met at every touch point. With a strong sense that the power is in their hands, they will penalise organisations that disappoint them by withdrawing their custom and telling everyone about it through social media.

THE DIGITAL ORGANISATION

The digital contact centre that aims to migrate customers away from voice based contact channels should not aim to 'channel shift' but to 'channel optimise' – balancing the requirements and expectations of the customer with the commercial imperatives of the business. This will deliver an optimised service based on an understanding of the cost of the service and the value of the interaction.

Forcing customers down particular channel routes presents the risk of acting with insufficient consideration of the customer context, perspective, intent or interest. This is proven to create frustration and brand damage leading to additional costs, value degradation and other counter-productive outcomes.

Digital services have enabled organisations to migrate low value high volume activities away from more expensive contact centre resources. However, when evaluating the business case for digital strategy, organisations must consider that with more informed customers comes more informed conversations for those transactions that still retain agent contact.

THE LANDSCAPE HAS CHANGED - YOU WILL NEED TO KEEP UP

ROBOTICS AND ARTIFICIAL INTELLIGENCE

As Robotic Process Automation (RPA) and Artificial Intelligence (AI) enhancements assist with a growing number of everyday tasks and applications, the implications to the workforce will be substantial.

Leading outsourcers are recognising that RPA is a capability that is needed across many clients and providing the tools and expertise to support workflow and task automation needs to be a core part of the proposition. RPA drives efficiencies by, for example, improving the flow of work between in-house and outsourced teams, creating visibility of bottlenecks and potential service level failure points that damage customer experience. RPA is not new but effective management of high volume digital interactions will need increasingly sophisticated tools in order to respond dynamically to customer requests. This is where AI comes in.

Smarter mobile applications and, in particular, the rise of voice based assistants such as Alexa from Amazon, are raising customer expectations about increasingly natural and intuitive ways of communicating with machines. Automated chatbots are currently the most recognised form of AI, guiding customers through a process to resolve their queries without human support. The AI that sits behind self-service is still in early stages of evolution with the focus being firmly on repetitive and simple tasks and queries. In the future, personalised or context specific interactions will be developed and allow a joined-up, cross channel experience.

Agents' knowledge is key in teaching the AI and refining the responses it provides and the more complex interactions will always need the skills of agents for their resolution, with many of these being handled through the phone.

Outsourcers will need to demonstrate their increasing capability to handle these more complex interactions which now are often seen as the domain of the in-house team. While there is no revolution coming that will suddenly mean the human is redundant, high volume low complexity contact will be first to be driven out through AI. The forward thinking providers are looking at how they deliver enhanced human service and help their clients to obtain the benefits of digital and AI in new commercial models.

Consideration must given to the complexity and risk of embarking on an effective digital or Robotics led transformation. To optimise the potential of the opportunity and effort required, organisations need to ensure they have:

- **Subject matter expertise –** True understanding of, and experience in, quantifying and delivering digital initiatives
- **Investment funds -** Many digital initiatives require significant upfront investment for systems, training and project costs
- **Drive and vision –** Transformational projects will be complex and will require senior level sponsorship, advocacy and ongoing focus
- **Appetite for risk –** No-one is saying this is easy – and there is a risk that it could result in a costly failure.

A digital strategy managed correctly will deliver customer experience the way customers want it, and an AI led strategy managed correctly will deliver a more effective and efficient operating model. Together they can safely remove interaction costs, and provide self-service solutions that are available 24/7. Conversely, failure to expertly plan and implement will create risks to customer experience, perpetuate an unnecessary and uncompetitive cost base that will ultimately lead to uncompetitive pricing, and allow innovation to be applied 'on the fly' - inevitably resulting in inefficiency and ineffectiveness.

Organisations that outsource must assess whether their outsourced partner is delivering the opportunities above.

Organisations that are not outsourcing should consider whether they have the knowledge and capability in-house to enable change and mitigate against risk. The landscape has changed – you will need to keep up!

OUTSOURCING FOR DIGITAL AND AUTOMATION LED CHANGE

At Ember, we believe that all outsourced contracts should be transformational to the benefit of both parties. However, traditionally the outsourcer's commercial driver is to maintain volume and streamline cost.

The traditional outsourcing model

Traditionally the reasons for, and the definitions of success applied to outsourcing, centred on the following broad factors:

- Cost efficiency
- Buy-in of expertise and access to technology
- Flexibility
- Contract out of risk

In this model there is inevitable friction between cost saving and performance - the commercial imperative of the outsourcer to make money/cut corners versus the clients' expectation of maintained and/or improved customer experience. In more service-based operations this has rarely been achieved.

Typical pricing models focused upon transactions handled, most commonly call and email transactions, frequently on a fee per transaction or a fee related to the advisor's time dealing with these transactions. In this environment the outsourcer's commercial driver is to maintain volume and streamline cost

The impact can, of course, be mitigated by service levels and specific targets for change and, in a sales or collection business, commercials and performance can be aligned. Inevitably for most operations the underlying contradiction cannot be removed and creates a fundamental fault line along which outsource contracts often fracture.

However, we can create a compelling outcome-based commercial structure for outsourcing, allowing the client to optimise its transformational potential and the outsourcer to be incentivised to deliver it. Applied correctly, outsourced contracts can deliver:

- **Affordable change –** the investment spike can be managed and reduced by the use of the outsourcers' infrastructure and balance sheet
- **Guaranteed efficiencies and related cost savings -** contracted to the level the organisation believes achievable or acceptable and controlled beyond that point
- **The transfer of delivery risk -** to an expert outsourcer better able to manage that risk.

We believe that all outsourced business cases/contracts should be based, to a greater or lesser degree, on an incentivised cost reduction curve with the option of smoothed investment costs and with hard performance measures creating a 'protective wrap'.

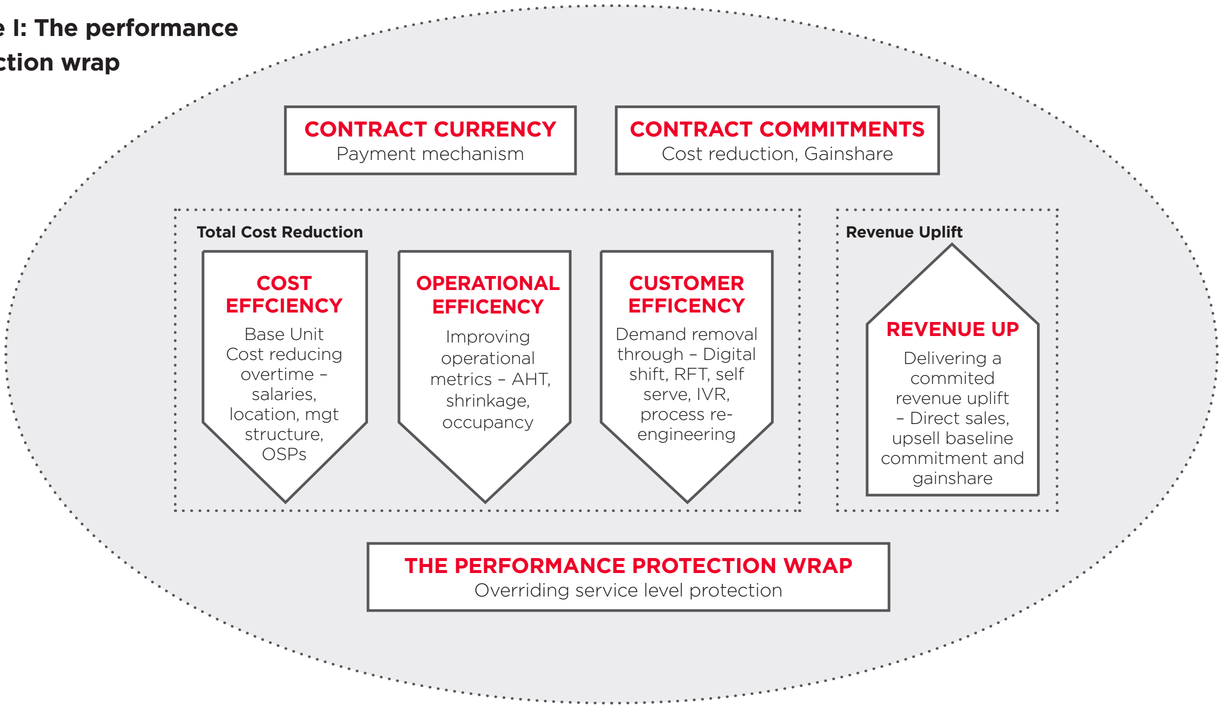
The following factors now allow attractive, commercially aligned contracts to be created:

- **'Contractable' and material efficiencies -** An outsourcer will contract to deliver digital or automation change through a committed reducing contract cost. This transformation creates a new deliverable within service operations that can be contracted against i.e. volume removal and/or shift and AHT reduction will be a contracted deliverable of the outsourcer. This often sits alongside traditional operational and cost efficiencies to deliver a total cost reduction curve. Against this a pricing mechanism can be created that locks the contract into delivering the agreed efficiencies. Put bluntly, if the outsourcer fails to deliver the agreed change, they pick up the bill. In addition, over-delivery can be incentivised to the extent deemed safe.

  There remains a degree of uncertainty and risk in ensuring that the committed savings are enough to cover the incremental costs of supplier margin and management, and the risk premium associated with the change. This will not always be the case, but the introduction of customer-based efficiencies makes this much more likely.
- **Removal of investment spike -** The outsourcer can be used to smooth the investment spike in delivering digital change that is otherwise likely to be borne by the organisation. This comes at a cost of course, but mitigates the investment risk. Ultimately, if the outsourcer fails to deliver the agreed change, they pick up the costs.
- **Performance protection -** Over-arching quality performance levels must still be protected by the use of strong service levels.

The structure can be seen in the following diagram.

Figure I: The performance protection wrap



WEAKNESSES OF THE MODEL

Of course this new outsourcing model is not perfect and has its weaknesses – some apparent in the traditional model and some particular to the new world, such as:

- **Sharing the financial benefit –** The inevitable trade-off for guaranteed savings and risk mitigation is a reduced financial benefit as gains need to be shared with the outsourcer. This includes any over-delivery on efficiencies.
- **Outsourcer margin -** There will always be an outsourcer's margin to cover that may be increased due to an additional risk premium. This remains an often unpalatable aspect of outsourcing, however essential.
- **Control/ownership -** Loss of (or less) control of digital initiatives.
- **Outsourcer influence -** It is likely that, in order to deliver true transformational change, the outsourcer will require greater control/influence over wider areas of the business than in more traditional outsourcing. For instance, if an outsourcer has committed to significant channel shift/migration, they are likely to (reasonably) require a say in how the web site is designed and how channels are promoted on marketing collateral or bills.
- **Complexity -** This new style of contract is complex requiring expert support in set-up and ongoing management.

ARE OUTSOURCERS UP TO IT ?

A fundamental barrier to this type of deal is that client organisations don't trust outsourcers to deliver the change required as effectively as in-house operations. It is one thing to construct a clever contractual arrangement, another thing to deliver on it. In the past some outsourcers have been guilty of over-promising and under-delivering and, in this new world where the stakes are higher, organisations are rightly even more hesitant to take the leap of faith.

Ember suggests that four new factors need to be provided by outsourcers to provide potential clients with comfort:

- **Longer-term view / extended trading cycle** – deals need to be longer; typically 5 years
- **Strong balance sheets** to fund the investment required and a corresponding appetite for risk
- **Subject matter expertise** within their core team
- **Organisational / project expertise** and experience of execution in this area.

These are areas that have been evidenced in other, more mature types of outsourcing – BPO, IT, Finance & Administration and even HR. A few outsourcers have risen to the challenge of the new world and are reaping the benefit – whether enough others can step up to the mark remains to be seen.

We are not advocating transformational outsourcing as a panacea for all organisations - far from it. For many organisations the in-house route will always be the most appropriate and some may even choose to reverse their outsourcing decision. What we do recommend is that all organisations should re-assess their outsourcing decisions and the contractual basis used to govern such activities, with the possibilities of digital change at the heart of the process.

THE 10 BEST PRINCIPLES OF GOOD VENDOR MANAGEMENT

The digital world has made the outsourcing decision more complex and significantly raised the ante. Similarly the ongoing management of relationships, if outsourcing is chosen, has been made that much more important:

The decision-making process and procurement

In making the decision to outsource (or not), organisations need to be prepared and have skills in place to make an accurate assessment. To make an informed decision they need to have evaluated and understood the size of the prize and to have built a robust business case describing the need for transformation, before moving on to consider how that transformation will be achieved.

Organisations need to be able to run a complex procurement, balancing volume and cost reductions against customer experience protection and locking in to a suitable cost reduction curve that incentivises but does not over-incentivise the outsourcer. At the same time the organisation must gain a true understanding of their dependencies and obligations and be willing to commit to them.

The 10 best practice principles of good vendor management

Reassuringly however, within all this change, we believe that the basic tenets of good vendor management have remained unchanged regardless of the complexity of the deal and the ratcheting up of the potential benefits.

These 10 best practice principles have been tried, tested and honed over the years:

1. **Definition:** Ensure that the operation you plan to outsource is well defined; that current processes are clearly articulated and performance measures established. This is the 'stable' operation you want your OSP partner to transform, so you – and they – need to start with a clear picture.
2. **Focus:** Invest time to articulate your ambition regarding multi-channel delivery and the obstacles that you believe need to be overcome to achieve it. Share this insight with your OSP and make sure their proposal addresses both realistically.
3. **Value:** Traditional outsourcing is typically measured on operational metrics; transformational outsourcing on business value – revenue gain, cost reduction and improved customer experience. Set appropriate goals.
4. **Clarity:** Make sure those business goals are clear, unambiguous and measurable. Because these are the measures upon which your OSPs remuneration will be based, they have to be clearly under their influence and not dependent upon other factors.
5. **Sharing:** The premise of transformational outsourcing is that both parties share in the financial gain that comes with success. Make sure that incentives and gain share are realistically set. Both parties must feel that the gain they stand to achieve is appropriate to the risk and cost burden they carry.
6. **Risk:** Allocate risk to the party with the greatest ability to influence it. Different areas of risk are best managed by the OSP and others by the client. For example inflation risk is best managed by the OSP as they carry the exposure to salary cost.
7. **Expertise:** Retain expert knowledge in your organisation and make sure your team maintains an intimate understanding of how the service works as it evolves through the transformatonal process. Only then will you be able to evaluate OSP performance accurately.
8. **Future-proof:** Transformational projects are long and must not be so rigid that they cannot accommodate change in the client's business or sector. Build in regular review periods that will enable both parties to review, refocus and reshape the operation without financial penalty.
9. **Governance:** Ensure you have management disciplines in place to keep your partnership on track. Procurement is only the first step here. Once the excitement of the initial contracting has subsided, it is important to have strong control mechanisms and diligent focus on both sides. This will require resource and commitment from the leadership teams of both parties.
10. **'Plan B':** Transformation contracts are long and can be difficult to terminate. Therefore, be very sure of your outsourcing decision and, if you do encounter difficulty, be prepared to call for re-negotiation or a re-brokering of the relationship.

Applying these principles should ensure that even the most demanding and transformational outsourcing contract will deliver as planned.

CONCLUSION

There can be no question that a new generation of outsourcing businesses are positioning themselves to deliver digital service transformation. Outsourcing, without doubt, will not suit all, but every organisation should evaluate the changing outsourcing landscape and decide whether outsourcing has a role in accelerating their journey towards digital by default service delivery – and those that are already outsourcing need to review their existing relationships to determine whether they are fit for purpose or could deliver more.

NEXT STEPS

For more information and to find out how Ember can help to improve your outsourcing and digital strategies, please contact us **Call +44 (0)20 7871 9797.**

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