International Outsourcing Market Overview

Authors	Ica van Eeden & Andy Searle
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1. Background to the document

This document was developed as an initial feasibility assessment for the potential entry of South African suppliers into the market for the provision of contact centre operational services to off shore organisations.

It contains a consolidation of selected market research information (this represents a snap shot view and is likely to change rapidly over the next six to twelve months) specific to the international outsourcing of contact centre service operations, our personal view on the opportunity and concludes with our recommendations for the possible strategic focus and positioning of offerings in this space. A service provider should use their contact centre's operational capability and their strengths, weaknesses and the market's opportunities and threats to determine the most appropriate differentiation and offering to present to the international market.

The document is intended to inform strategic thinking and planning around preparing for the future international outsourcing opportunities.

2. Introduction

In the past few years, organisations of the 1st world economies have experienced a flattening out in economic growth per annum, similarly, they are being challenged by the high expectations of shareholders for improved margins and returns. This has lead to the introduction of various cost reduction initiatives to achieve their business objectives. One of the key cost reduction initiatives of recent times has been the outsourcing of business processes, including call centres, to lower cost destinations. This has been largely enabled by the evolution of networked contact centre technologies which have provided organisations with the ability to operate a physically decentralised model (in terms of people, infrastructure and facilities) while keeping it logically consolidated (in terms of customer databases, applications, information systems and business processes).

The United States and the United Kingdom have been at the forefront of this initiative, outsourcing call centre operations to countries such as Ireland, the Philippines, Jamaica, Barbados, Canada, Australia and India. This trend is set to continue with estimates of up to 500 000[1] seats planned for outsourcing from 1st world economies to lower cost destinations over the next 3 to 5 years.

Amidst tough competition, South Africa is rapidly raising its profile as a competitive lower cost destination for such outsourced contact centre services. Trade and Investment South Africa have been at the forefront of this drive, joined by various leading players in the Financial Services (Sanlam, Nedcor, ABSA,) and IT industry (Dimension Data, Avaya, EDS) and by organisations such as Calling The Cape, Dialogue, Call Centre Nucleus, e-Centric and Call Centre City Holdings.

With the current South African contact centre market estimated to consist of 32 000 agents operating out of 410 installed contact centre sites[2] (ranging in size from 4 seats to over 600 seats), and with the American, UK and Australian markets each having in excess of 200 000 agents and each wanting to outsource large portions of their operations to lower cost destinations, it is not unrealistic to assume that South Africa, if it meets the critical success criteria for international outsourcing, is on the brink of significant market growth in this sector.

However, apart from the international operations that organisations such as Blake Holdings (debt recovery), Dimension Data (marketing and customer service) and Lufthansa (reservations) currently operate there have been no out-sourcing deals of magnitude (1000 seats +) won and delivered in South Africa

[1] Datamonitor
[2] Mitial Research (2002): South Africa 2002/3 Country Report

making it difficult to project, with any degree of confidence, the magnitude of the South African market opportunity for internationally out-sourced call centres.

2.1. Current Market Situation

An overview of the international call centre market provides useful insight to the current competitive positions of the major players in the global industry and into the areas of competitive advantage that they have over each other. It also supports the notion that South Africa can become a significant player in this market once it addresses issues relating to voice and data costs and other relevant internal regulatory matters.

The major players in the global market are the UK, with approximately 300 000 agent positions, North America, with approximately 274 000 agent positions, and Australia with approximately 200 000 agent positions.

Other players include: India (16 000 agent positions); The Netherlands (120 000 agent positions); Ireland (10 500 agent positions); the Philippines (unknown); Singapore (between 5 000 and 1 000 agent positions); Barbados (unknown); and the African players with South Africa (32 000 agent positions); Tanzania (unknown); Uganda (unknown); Ghana (unknown); Morocco (unknown).

South Africa represents a major cost advantage over other destinations when it comes to facility costs and it is competitive with its labour costs, although more costly than countries such as India, Uganda, and the Philippines. Corporate tax rates are competitive although profit repatriation allowances are not competitive with countries such as Ireland.

With an increasingly deregulated telecommunications environment, South Africa should be able to position itself as a very competitive player as regards the overall package on offer (cost, service, quality, investor friendliness), albeit higher up in the value chain than countries such as India (more on this later).

2.1.1. International locations

The international outsourced call centre locations around the world are summarised in the following tables:

Focus outsourced locations of the past 3-10 years:

Location	*Interest in location*
• Australia	• The US market for the past 10 years
• Ireland	• Has been an outsourced location for the US and UK markets for the past 10 years

Outsourced locations receiving interest in the past 3-5 years:

Location	*Interest in location*
• India	• Became a potential location for the UK and US markets in the past 2-3 years
• New Zealand	• Mostly UK companies
• Philippines	• Alternative consideration for US companies wanting to outsource closer to home)
• China	• UK interest
• Singapore	• UK interest
• Hong Kong	• UK interest
• Canada	• Mainly for US companies considering outsourcing closed to home

Current "hot spot" outsourced locations under consideration

Location	*Interest in location*
• Caribbean & Latin Americas (CALA) (Jamaica, Barbados, St Lucia, Trinidad, Tobago, Argentina, Chile, Brazil, Mexico, etc.)	• US outsourcing option, mostly for Hispanic customer base (Mexico) • Spain (Argentina, Mexico & Chile) • Portugal (Brazil & Chile)
• North Africa (Morocco & Tunisia)	• French Companies
• Eastern Europe (Czech Republic, Poland & Hungary)	• Companies servicing German speaking customers (Germany & Austria)
• South Africa	• English speaking customers (UK & US) • Dutch speaking customers • Limited multi-lingual, but there are currently a call centre in operation servicing German speaking customers – Lufthansa

2.1.2. Comparison of the international locations

The pros and cons of the selected destinations are summarised in the tables below:

Australia

General Information	
• Australia has 20 years of CC operational experience • $10 billion industry • Employs 240,000 people in over 4,000 Call Centres • Estimated 200,000 CC agents • 140,000 – 150,000 CC seats[3] • Average CC size in Australia is 67 seats • Per seat cost of a CC is Aus$71,826 p.a. • Agent wages is Aus$34,824 p.a. • Turnover rate per annum is 17%	
Pros	**Cons**
• World class service delivery • Excellent infrastructure (telecoms) • Large pool of multi-cultural & multi-lingual labour • Lowest long distance call cost in the world • Self regulatory industry standards • Acceptable English accent for US and UK • Competitive wages structures • Favourable exchange rate against US $ • Regional hub of Asia	• Time zones for Europe • Labour costs are not as low as other areas such as India • Removed from main continents

Ireland

General Information
• In 2002 Northern Ireland supported 40 full size CC (20 seats or more) and approximately 30 'pocket' sized centres (1 – 19 seats)[4] • Northern Ireland represented 0.7% of Full size CC in UK (2001) and 1% of pocket size CC. • 8,000 to 12,000 people are employed in the CC industry in the Republic of Ireland • Estimated growth of 40,000 people employed by 2010 • Projection of 19,000 seats in 2001, projected growth to 24,000 in 2005 • A weak growth forecast is predicted for Ireland • Total of100 Irish based CC servicing pan European market • Northern Ireland has a total active labour force of 732,100 and based on 8,000 FTE jobs, approximately 1.1% of the population of Northern Ireland is employed in CC operations. (far from being saturated) (Compared to 2001 UK average of 2.1%) • The current trend for CC investment is increasingly focused on Northern Ireland due to strong marketing activities by Invest Northern Ireland

[3] Asia Pacific Call Centre News, 2-11-2002

Pros	Cons
• Large educated labour force • Young labour force • Multi-lingual • IT skilled • Northern Ireland's labour cost is estimated to be 36% lower than that of the UK • Dual feed fibre connections • Strong IT network • High level of IT infrastructure • Well developed telecommunications infrastructure with good network connection available from an increasing number of suppliers. • Excellent transport infrastructure and easy access	• High level of staff turnover • CC are not seen as a career, but rather a "work experience"

India

General Information

• The Indian CC boom is based on Indian Joint Venture Partners with experience in handling both regulatory hurdles and ensuring that the necessary infrastructure is in place. Large US companies contract to large US remote processing companies who run centres with 10,000 to 20,000 seats in various locations. These contracts are negotiated through middlemen and smaller players and placed at locations such as India.
• Large, unemployed, inexpensive labour pool (62,6% of population is between 15-64 years of age)
• India has two segments of Call Centres i.e. domestic and international.
• The domestic CC segment employs an estimated 5,000 to 10,000 staff and is estimated to grow at 30-40% per annum.
• The international CC industry employs an estimate of 25,000 people and the projection is for 50-70% growth per annum[5]
• BPO market has shown a Compound Annual Growth Rate (CAGR) of over 50%+ growth rates in the past few years
• India is well positioned to handle back office and business process fulfillment.
• Several global corporations such as GE, HSBC, AXA, Citybank has offshore operations in India
• The spectrum of outsourcing processes can be divided into 5 segments and India has focused on the following value proposition:
  ○ Data conversion
  ○ Rules set processing
  ○ Decision-making / problem solving processes
  ○ Direct customer interfacing
  ○ Expert knowledge services e.g. financial accounting

[4] Mitial Research report – April 2002
[5] The IT Business Weekly, 24th of December 2001

The margins improve as services are moved up the value chain.

- India charges between $15 – $20 an hour per seat, but the fee is marked-up depending on the nature of the job.
- Margins in the case of well-run CC can be in the range of 25% per annum.
- India will continue to focus on low cost outsourcing and will differentiate in terms of price
- Analysts predict that there will be a shakeout in the Indian outsourcing market as there is currently an oversupply of low-end seats.

Pros	Cons
• Largest English speaking population after the US • Young, educated & motivated workforce • Over 2,800 educational institutes, 15 million unemployed graduates • CC positions are seen as a career and a highly prestigious job • Fairly high level of work ethics • Cost-effective manpower – wages approximately 10-15% of those in the UK (Average CC wage is £120 a month) • Geographical position allows for leveraging time zone differences e.g. 12 hours ahead of US and can deliver faster turn around times • Potential for 24x7 services • Large presence of international technology players • Several large computer software integrators with proven track record in both software development, implementation and application areas • Well developed software and CTI industry • Many state and government incentives for outsourcing operations • CCs are a major thrust area for the Indian Government • 100% tax holiday till 2010 & additional incentives by local governments	• Political instability and treat of nuclear war with Pakistan has given cause for concern and a slowdown in general outsourcing • Poor infrastructure (telecoms & power) • Attempts to link US satellites has been very expensive and not really successful • Electricity infrastructure is very poor and often interrupted • High telecom costs • Telephony system is analog and inadequate • Telecom market is not deregulated and international calls are very expensive • Complex bureaucracy and government regulations complicate business • Very heavy English dialect • Customer service culture is virtually non-existent (service is seen as a luxury and not part of everyday life in India) • Poor quality of interactions and impact on UK and US customer base • Anti-piracy and confidentiality laws are not strictly enforced • Business culture and government intervention is very different from western business • Lack of CC experience • CC staff attrition rate of 35-40%

Canada

General Information
• Canada supports the same range of CC as the US: basic inbound and outbound, high-end multimedia voice, on-line financial services and tech support[6] • 1.5% of Canadian labour force works in the CC industry • 12,500 CC jobs • Call Center Week reports a 24% annual growth rate of CC in Canada, and estimates the number of Canadian CC to be 6 500[7] • Canada has a 7.5% unemployment rate

Pros	Cons
• Lower cost than US • Agents relate well to US customers • Politically stable • Easy access for US companies (near shore option) • Strong voice / data connections • Legal system that is similar to US • French speaking agents can service Europe • Secure location for US companies (safe option) • Direct flights & short travel times • Large multi-lingual labour force • Large cities • Fairly low business cost • High educated population • Low-cost telecom network • Clear accent for US customers • History of CC success • Can service customer in most parts of the world	• No real cost advantage to the US • Limited supply of CC real estate and infrastructure • Cities are priced out of low-end CC market & are costly • No real benefit between moving a CC from the US to Canada, except that it is slightly cheaper (depending on the exchange rate) and that it is a closer outsourcing alternative than to for example India

Caribbean and Latin Americas (CALA)
(Mexico, Panama, Argentina, Chile, Brazil, Puerto Rico, Tobago, Bahamas etc.)

General Information
• From 2001 – 2007 it is estimated (Datamonitor) that the CALA will be the fastest growing CC market in the world, leaping from 11,000 agent positions (APs) to nearly 70,000 Aps by the end of 2007. • Largest CC market in the CALA is Brazil, the country makes up 50% of the regions APs. • Mexico will claim the fastest growing market for outsourced APs through 2007, driven by efforts from US companies to outsource service to the Spanish speaking population. • Site selectors say that the Caribbean countries are best suited for low-end call

[6] Call Center Magazine, 09-04-2002
[7] Call Center Week, 5-14-2001

centres such as airline reservations, credit card sales, collections and order taking.
- The Caribbean is home to approximately 50 CC varying from 7 to 800 agents per centre and with seating capacity ranging from 10 to 1,000[8].
- The industry consists of over 11,000 agent jobs, operating 12 corporate CC located in the Dominican Republic, Trinidad and Puerto Rica. The other 38 CC are scattered across the region.

Pros	Cons
• Most of these countries claim that they can support US customers with the same service as US CC at a cost of 25%-65% less • Low wages and loyal workforce • Can leverage the Spanish speaking labour force to service the US's large and growing Hispanic population • Fairly easy access from the US (Mexico) • Free trade zones • Fairly high literacy rate among urbanites • Panama: Excellent telecom infrastructure, available office space, excellent schools, bilingualism and strong banking sector. Spanish & English CC • Mexico: easy access from US, bilingual (close to borders) • Puerto Rico: 12% jobless, aggressively seeking bilingual CC. Slightly lower costs than the US, secure island & part of the US • Chile: excellent labour-relations, high quality voice/data connections, stable and affluent country. • Argentina: strong sales culture, educated labour force	• South America is no longer "near shore" to US • Accent and political differences between South American countries e.g. "Chileans won't talk to Argentineans and vice-versa" exist • Fairly high CC agent turnover • Power facilities, telecom networks and property costs are not always as favourable • Cross-border Telco costs are high • High cost of connectivity. • Training and development of CC staff an issue

Eastern Europe

General Information
• The fastest growing CC market in EMEA is the Czech Republic • Ovum estimates that the CC growth in Central & Eastern Europe (along with South & Central America) will accelerate in the next few years and that the regions' share of global CC capacity will increase from the current 2% of worldwide CC seats in 2001 to 7% in 2006 (a combined increase to 14% from 4%)

[8] Zagada Institute, Caribbean Call Center Report 2002

Pros	Cons
• Relative low cost labour compared to the rest of Europe • Educated and westernised labour force • Multi-lingual to service European customer base i.e. Germany and Russia and potentially some American markets • Easy access to Europe • Provide good customer service • Tenacious at selling and debt collecting • More politically stable than India & Philippines • Will enter the European Union in a few years	• No suitable information available at this stage

United States

General Information	
• In 2001 there were 50,200 Call Centres in the US (Datamonitor) • The expected CAGR is 0.89% - will increase number of CC to 50,646 in 2002. • Datamonitor estimates that the number of CC in the US will be around 78 000 in 2003 • The retail, telecommunications, outsourcing and retail banking industries represent the largest vertical markets in terms of agent positions (APs) – account for 50% of the total APs in North America • Fastest growing CC size-band in the next 5 years will be the 10-30 agents, projected CAGR of 4.9% in this band • Customer Interface's 2000 survey found that 23.5% of US customer contact centres were in the Mid-Atlantic region, 22.2% were in the West (including Alaska), 18.5% were in the Midwest, 14.7% were in the Southwest, 13.35 were in the South, and 7.8% were in the Northeast.[9] • 5% of the US labour force works in CC • The US currently has a 5.9% unemployment rate • According to TeleManagement Search (TMS), the average salaries for inbound CC supervisors are about $30,000, CC Managers earn on average in the low range of $60,000pa. CC directors in consumer operations earn on average $92,700 and those in B2B operation earn $83,100[10]pa. • Wages and turnover escalations in major metropolitan areas seem to have ceased increasing, but still contribute to the largest portion of the cost. • Smaller cities have become more attractive for high quality CC	
Pros	**Cons**
• Home grown operations • Understand American customer base	• Hugely expensive labour force • Saturated labour force in CC industry

[9] Customer interface, 2-9-2001
[10] TeleManagement Search, 2-1-2001

• Secure environment • Stable economy • Easy access across all states • Slow economy has given access to educated resources that would otherwise have been employed elsewhere e.g. nurses, help desk workers etc.	• Dollar based operations • Current slow economy • Costly CC in large metros

United Kingdom

General Information	
• Estimated CAGR of 8% (as per 2002 Datamonitor report) • Outsourcing market CAGR of 16% • Primary drivers for this growth is the labour shortage, cost cutting and companies focusing on CRM • The UK is the largest call centre market in EMEA • 2.2% of British labour market works in CC • Fastest growing vertical sector in EMEA is the public sector and outsourcing • Government and labour unions are now demanding legislation to protect the UK industry against extensive outsourcing to countries like India and the Philippines	
Pros	**Cons**
• No suitable information available at this stage	• Labour relations and union regulations • Labour saturation (large portion of labour market works in CCs) • Over supply of low-end agents • Overall European workforce is ageing

South Africa

General Information	
• The CC industry in SA has shown a 2,2% growth in 2002 and is estimated to grow with 2, 3% in 2003. • The country has low commodity prices and a fairly weak and fluctuating currency. • 48,000 workstations with the potential of 100,000 growth in outsourcing opportunities are expected over the next 5 years.	
Pros	**Cons**
• Lower cost base (cheaper labour & exchange rate) • Quality and cultural affinity • SA literacy rates are in the region of 84% (24% higher than that of India) • Affluent market and business hub • Excellent telephone system (Telkom) and costs are increasingly more competitive • SA has two cable back bones and	• Significant pool of highly skilled workers is available, however high emigration rates on account of low wages in the domestic market, result in a shortage of skilled labour especially in the IT profession • Demand currently exceeds supply with the greatest shortage at higher management and supervisory level • Potentially difficult to staff a shared services centre for hours in excess

far greater technical resilience than India • Accent is not a big issue for the US and UK markets, but care must be taken with some of the indigenousness language accents • The country has a customer service culture • Largest % of Microsoft-certified technicians in the world • Excellent physical infrastructure • Fairly easy access from Europe and the US • Favourable and compatible time zone for the UK and the US • CC staff attrition rates are 5-7% (vs. 35-40% of India)	of a 12 hour day due to the shortage in qualified labour • No tax incentives in place • Shortage of skilled labour has stunted the growth of the BPO industry in South Africa; few global corporations have setup their back office processing centres in SA • International perceptions of regional instability (on account of crisis in Zimbabwe) continue to have an adverse affect on South Africa's creditworthiness • Wage inflation of approximately 10-15% depending on skill types • Telecommunication costs tend to be comparatively expensive due to Telkom having a monopoly – although this is currently being addressed • Crime and violence statistics • Bad impressions left by expatriates.

Summary of location comparison

The cost advantage of outsourcing is not always the most important issue, but rather a combination of benefits. The following table provides insight into the hourly cost per country and should be viewed as one element of the offering.

Cost comparison (Global operating cost research, 2002 information)

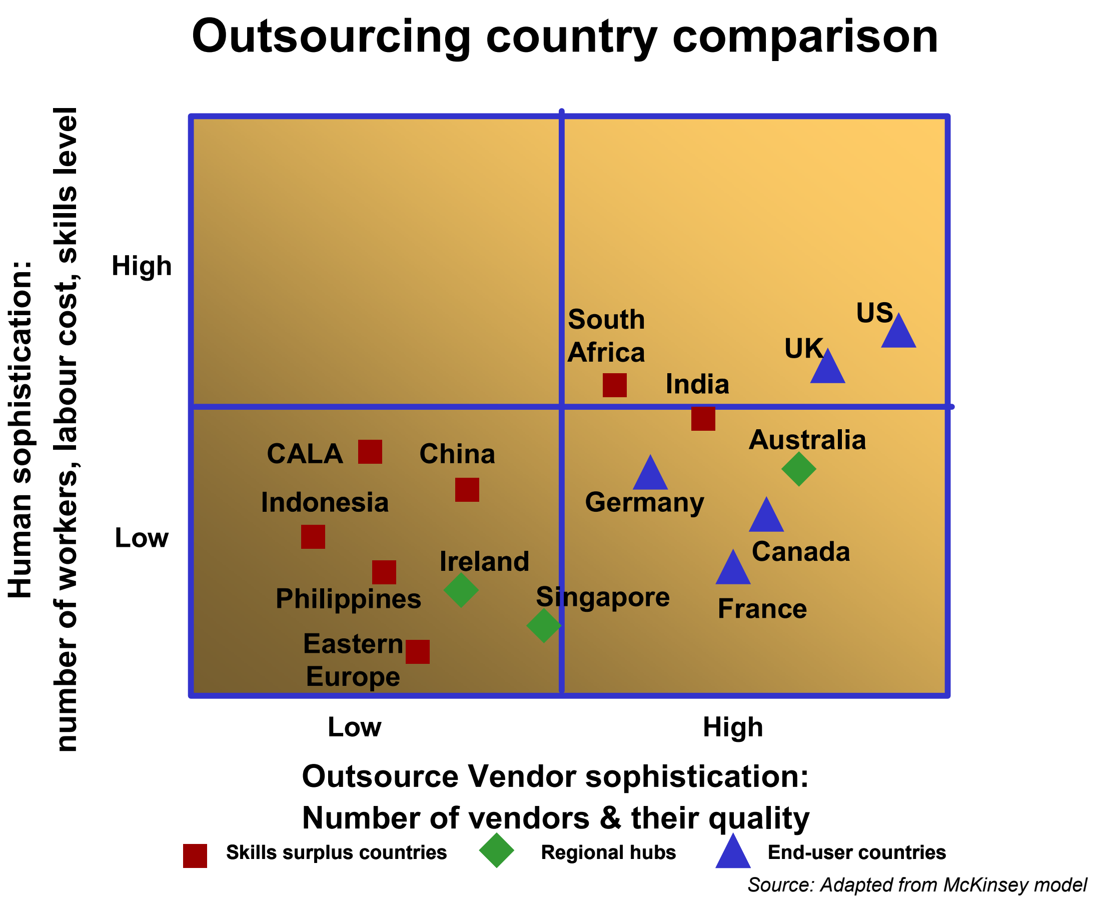
Country	Labour cost ($ per hour)	Fully loaded Seat cost ($ per hour)
US	$7.50 - $14	$24 - $40
UK	TBC	$24 - $40
India	$1 - $2	$8 - $16
Jamaica	$2.50 - $3	$8 - $16
Canada	$5 - $7	$24 - $40
Puerto Rico	$5.15 - $8	$8 - $16
Mexico	$3.50 - $5	$8 - $16
Madrid & Lisbon	$7 - $10	$24 - $40
Brazil	$3 - $4	$8 - $16
South Africa	$3.50 - $5	$16 - $24
Northern Ireland	$5.50 - $6.50	TBC
New Zealand	$5 - $7	$24 - $40
Eastern Europe	TBC	$16 - $24

Source: Various

Increased due diligence is required to assess possible locations and outsourcing vendors because of their distance, culture, country issues e.g. security etc. – the overall complexity of finding the most appropriate "fit" instead of finding the "cheapest" location. In the matrix below, Mckinsey positions the various locations on a grid describing the sophistication of the labour market and the vendor sophistication.

From the adapted grid below it is clear which countries represent a large customer base (end-user – see blue), which countries are centrally located as "regional hubs" (see green) and which countries could supply companies interested in outsourcing with the required services (red squares). See how well South Africa is positioned to accept work from the UK and US.

Figure 1: Country Comparison



2.1.3. Current market trends

In the past few years; site selectors, consultants, outsourcers and economic development agencies have been positioning India and the Philippines as low-cost alternatives to the US, UK and Canada.

But since 9/11, US companies have been less eager to move to countries in which the risk of international terrorism is perceived to be high. Besides the economical and political instabilities, companies have been receiving increasing pressure from customers regarding the English dialect and the quality of offshore location service and this has resulted in a huge risk of US customer defection. The three main reasons for US companies' reluctance to outsource outside the US are:

1. Lack of awareness of locations and the benefits they could offer
2. A desire to keep as many operations as possible in America (patriotism)
3. Complexity of selecting a near-shore or offshore outsourcer (risks involved)

The current trend is for US CC operations to look at near-shore locations that still promise lower costs than the US, but good service, fast and convenient access and fewer security risks. Locations that are currently being favoured are: Canada, the Caribbean (Jamaica, Barbados, Trinidad etc.) and Latin America. All these countries have a strong domestic economy and provide a market for American goods and services. Many companies are now weighing the benefits of near-shore locations to those of offshore locations.

The advantages of near-shore locations for US companies are:

- Geography,
- Ease of access,
- Safety of travel,
- Political stability,
- Lower labour cost than US (but not as low as India),
- Superior customer service culture
- Utilisation of higher productivity in outsource CC than in-house centres,
- Greater flexibility,
- Reduced operating risk, and
- Scalability

The current trend is for companies to outsource their more costly functions e.g. e-mail response and basic sales and service, but to keep their high-touch/high-quality service and sales calls in-house with agents that know their products and customers.

The following trends will change the dynamics of the outsourcing industry in the next few years:

- India will continue to compete on low cost, back office processes and will aim to change its culture to being more customer-centric and will focus on improving the English dialect.
- China has a large population for Chinese speaking agents who can service the US and Canada Chinese communities with low cost services and could emerge as a competitor if the government creates training programmes to teach English and American culture.
- The Philippines was India's biggest competitor to date, but South Africa will aggressively start targeting the same markets
- South Africa cannot offer costs as low as India, but with a service culture, quality performance, a strong British influence and without the Indian accent. The country will emerge as one of the most viable outsourcing locations in the next 2-5 years, but slightly higher up the value chain.
- The Caribbean countries will focus on "nearness" and their customer service cultures.
- The investment payback period for many US companies has been cut from two years to one year, resulting in outsource CC operations becoming more viable. (It normally takes two to three years for a new in-house CC to generate pay back compared to the outsourcing alternative).
- It currently is a "Buyer's Market" thus, companies seeking to outsource can secure and negotiate better pricing, terms and service than during boom times.
- More clients are insisting on one-year renewable in a typical three year contact, allowing clients to drop an outsourcer after one year, or after the second year, while the price remains the same.
- Companies are more demanding over "pay-per-performance" for sales and lead qualifications and "pay-per-call" outbound and inbound customer service pricing. This has advantages for clients who do not pay for idle agents and no sales, but is does put the pressure on the outsourcer to lower overall costs and improve performance.
- Shrinking budgets and the cost of providing quality service and compelling reasons for clients to consolidate outsourcing vendors will prevail.
- In a Frost & Sullivan report on North American Outsourced Contact Center Services Market, they estimated the outsourcing revenues of the US to hit $22 billion in 2002. This is down from $23.8 billion in 2001 and $24.6 billion in 2000, mostly due to the decline in the US economy. However, Frost & Sullivan predicts that there will be a turnaround and revenues will climb to $25.7 billion by 2009[11].
- The size and complexity of future potential projects will be of such a nature that only the largest outsourcers will be able to tackle them.

[11] Call Center Magazine, 02-05-2003

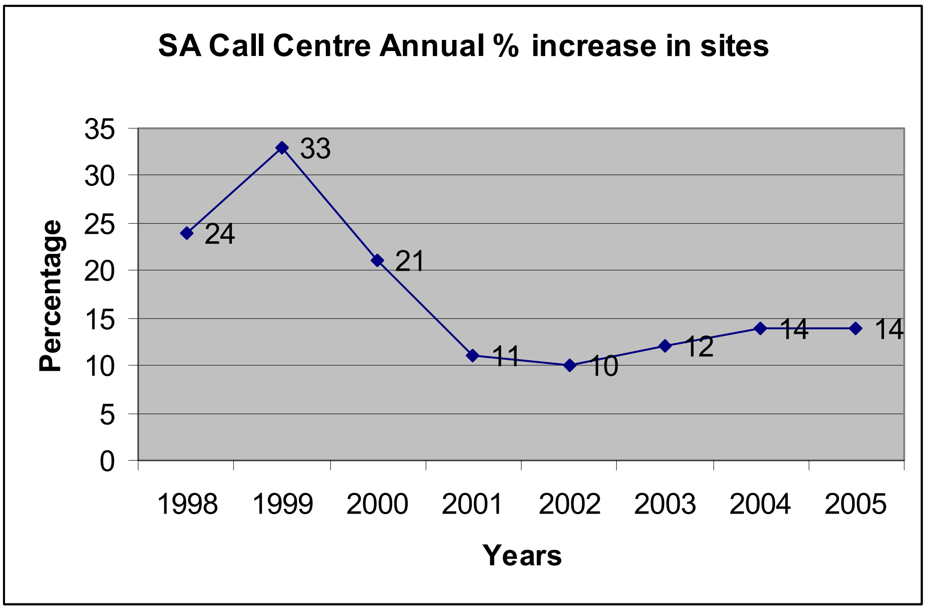
- However, the large bureaus might not be the best to service all clients, specialist suppliers should be considered where small and/or complex requirements exist as they often offer greater intimate attention to clients, they may deliver better quality service for money and may operate a "tighter ship".
- The risk for smaller suppliers will be to compete against the scale and reduced cost of larger outsourcers.
- Many US bureaus will continue to expand their operation offshore e.g. in India, aiming to grow and improve their offshore services and capabilities.
- Many offshore suppliers are bolstering their agent training by recruiting experienced UK and US CC executives and by implementing and using the latest technologies.
- Many outsourcers are opening CCs in multiple countries to minimise single-location risks and to utilise the "right fit" with the country and supplier offering.
- More bureaus are situating phone switches and application servers on American soil to guard against data theft.
- Savvy outsourcers are responding to the competitive countries and companies with better and broader ranges of services.
- Outsourcers are improving call handling, data analyses and supervision to improve overall CC performance, they are also tapping into more capable workforces e.g. graduates and skills-based routing.
- Service bureaus are moving to adapt automating live agent service to yield bigger cost savings e.g. offering clients integrated speech-to-text and speech rec-enabled IVR technologies.
- Outsourcing outbound calls to offshore locations will cut costs, but with the issues that foreign locations bring i.e. accent, poor cultural affinity, it may harden consumer and lawmakers even further against outbound calling. Declining consumer acceptance of outbound cold calling will kill telemarketing no matter how cheap it can be done.
- Savvy outsourcers will move away from outbound cold calling and telemarketing to add value to their client's business through inbound cross-selling and up-selling as inbound tech support and sales interactions with existing customers yield better returns than pure outbound telemarketing.

2.1.4. The South African Call Centre industry

- **Market dynamics and growth opportunity**

The call centre industry is one of the fastest growing sectors within the South African market with annual growth rates of between 10% and 20%. Market research estimated the Contact Centre sales for 2002 at R532 million. The South African market is perceived as a large, mature and sophisticated industry. It is generally believed that the local market has reached saturation levels and will not show similar dramatic growth rates, however, the potential for international outsourcing and investment opportunities will in drive the future growth in the industry.

Figure 2: SA CC industry growth



Source: Mitial Research 2002, base data December 2001

- **Market size**

At the end of 2001 there were 410 full-size call centres and 125 pocket call centres in South Africa. Most of these call centres; service local companies e.g. Old Mutual, Sanlam, ABSA, Telkom, MTN etc. Current seat numbers are around 48,000 to 50,000 workstations, with 1.6 agents per workstation, resulting in almost 80,000 call centre employees operating in South African call centres.

- **Vertical markets**

In South Africa the Financial services sector utilise the largest number of call centres. Other industries that depend on call centres to service their customer base are: Telecoms, Retail and Healthcare.

The break down of call centres into vertical industries can be summarised in the following table:

Vertical Market Analysis of SA Full Size Call Centre Sites		
Vertical industry	**Number of sites**	**% of total CC industry**
Financial services	115	27.9
Telecoms	57	14.0
MCS/MR	41	9.9
IT	38	9.2
Retail	35	8.6
Healthcare	32	7.7
Holiday/Hospitality/Leisure	20	4.8
Utilities	16	3.7
Outsourcing	**11**	**2.6**
Government	9	2.2
Industrial	9	2.2
Transport	9	2.2
Security	9	2.2
Post & Courier	8	1.8
Other sectors	5	1.1
Total	**410**	**100**

Source: Mitial Research, Oct 2002

What is interesting, in the relative small percentage (4.8%) of call centres in the travel and tourism sectors. Due to South Africa being an increasingly popular holiday destination, the prediction is for strong growth in this vertical.

- **Geographical distribution**

The majority of the South African call centres are based in the greater Johannesburg area. Cape Town in the second largest call centre location with companies such as Old Mutual (900 seats) and Sanlam increasing the region's size. Durban CBD is also a sought after location within South Africa due to major investments in infrastructure and access to a highly educated labour market. Port Elizabeth is still a relative small site, but offer great benefit for call centres. Similarly, unknown and un-utilised cities such as Pietersburg and Pietermaritzburg could offer Contact Centre operator benefits in labour, facilities and access.

Geographical distribution of Full Size Call Centres in SA		
By site	**Number of sites**	**% of Total**
Great Johannesburg	238	58.0
Cape Town	62	16.2
Greater Durban	30	7.2
Pretoria	21	5.1
Other KZN	12	2.9
Port Elizabeth	3	0.7
Other	45	10.9
Total	**410**	**100**

Source: Mitial Research, Oct 2002

- **Functional activities in SA Call Centres**

The majority of South African call centres fulfill in the Customer services function, with over 41,000 employees accounting for 53% of the entire call centre staff base. Other functions supplied by SA call centres are: billing & account handling, IT support and helpdesk, telemarketing and hotel/flight/car reservations.

SA Call Centre Function Analysis		
Function performed in CC	**Number of employees**	**% of Total**
Customer Service	41,617	53
Billing / Account Handling	14,919	19
IT support / Helpdesk	9,423	12
Telemarketing/Telesales	5,500	7
Reservations	5,494	7
Other	1,570	2
Total	**78,522**	**100**

Source: Mitial Research, Oct 2002

- **Service providers servicing the SA Call Centre industry**

Service providers are segmented into a number of groups:

- **Information Technology:** Telecommunications and computer technology
- **Human Resources:** Recruitment and Staffing, Training and Development, Management Consultants
- **Consultants:** Client Relationship Management, Project Management, Workforce Management
- **Outsourced Houses/ Managed services / Bureaus:**
- **Ergonomics:** Furniture and headsets

2.1.5. South Africa the location of choice

The following points appeal to international companies when considering SA against the international market

- **Labour market**

South Africa is viewed as a very attractive offshore-outsourcing option, due to the abundance of a high quality workforce that have good or potentially good English language skills are 84% educated and eager to work (un-employment rate of almost 30%). Even university graduate struggle to find employment and SA has on average 600,000 students.

These skills are also available at much cheaper rate than most 1st world countries e.g. a typical CC Manager will earn around R185, 000 ($24,000), a team leader will earn approximately R86, 000 ($10,750) and an inbound R35, 000 ($4,000). *(Source: Dti, available at www.sacallcentre.com/labour.com)*

- **Availability of locations**

South Africa offers a large country with distributed cities to potential outsourcing customers. Although the current distribution of large call centres are limited to the 3 major business regions i.e. Gauteng, Western Cape and KwaZulu Natal, there are many “second tier” cities available that offers scope for the development of call centres. There is also sufficient labour around these smaller cities to access and develop.

The most viable smaller locations are:

- Port Elizabeth
- East London
- Pietermartizburg
- Umtata
- Pietersburg
- Bloemfontein
- Stellenbosch
- Grahamstown *(Source: DTi, available www.sacallcentre.com/location.htm)*

- **Time zones**

South Africa is on the same longitude as Europe and has an hour or 2 difference depending on the seasons. South Africa also offers the US a good “time fit” as the East Coast is 6-7 hours behind SA and the West Coast is 9-10 hours behind, thus presenting the opportunity of utilising existing SA call centres in their night or “down time” to service the US customer base.

- **Call Centre knowledge and experience**

The Call centre industry in SA. Many case studies exist

- **Transportation infrastructure**

South Africa offers a potential outsourcer the infrastructure of a 1st world; roads, airports, electricity, cities etc. It also has a developed and highly efficient business community that consist of technology vendors, resource agencies, consulting companies, facilities etc.

- **Availability of affordable commercial property**

Quality commercial property is available in all the major centres at affordable rates.

- **Exchange rate**

While current rates of exchange have resulted in a less attractive cost differential, South Africa still is competitive from a cost perspective and, with a sound economy, is likely to remain competitive.

- **Telecommunications infrastructure**

South Africa's voice and data network is almost 100% digital, with reliable broadband connectivity to all major international destinations. The environment is poised for deregulation which will see competitive pressure drive carrier costs down to competitive rates.

- **Competitive cost of living and high standard of living**

South Africa offers a competitive cost of living and a standard that compares favourably with competitive destinations. South Africa is also the one of the most popular tourist destinations in the world.

2.1.6. Current players in the South Africa market

The current players operating in the South African market place offering managed outsourcing operations include:

The international businesses:

- Dialogue UK (based in CT recently invested R50 million into South African operations)
- Mindpearl (operating a 200 seat CC out of CT, it is a Swiss based company managing the Qualiflyer Customer Call Centre)
- Global Telesales (operating Luthansa's 100 seat CC out of Cape Town)
- Generation Direct
- Sykes (US owned business)

The locally owned managed services operations:

- Dimension Data Managed Services
- e-Centric
- Call Centre Nucleus
- Call Centre City Holdings
- Dialogue (South Africa)
- Customer Care Solutions
- Blake Holdings
- Digitalmall.com

Company owned Contact Centre operations that are investigating outsourcing opportunities:

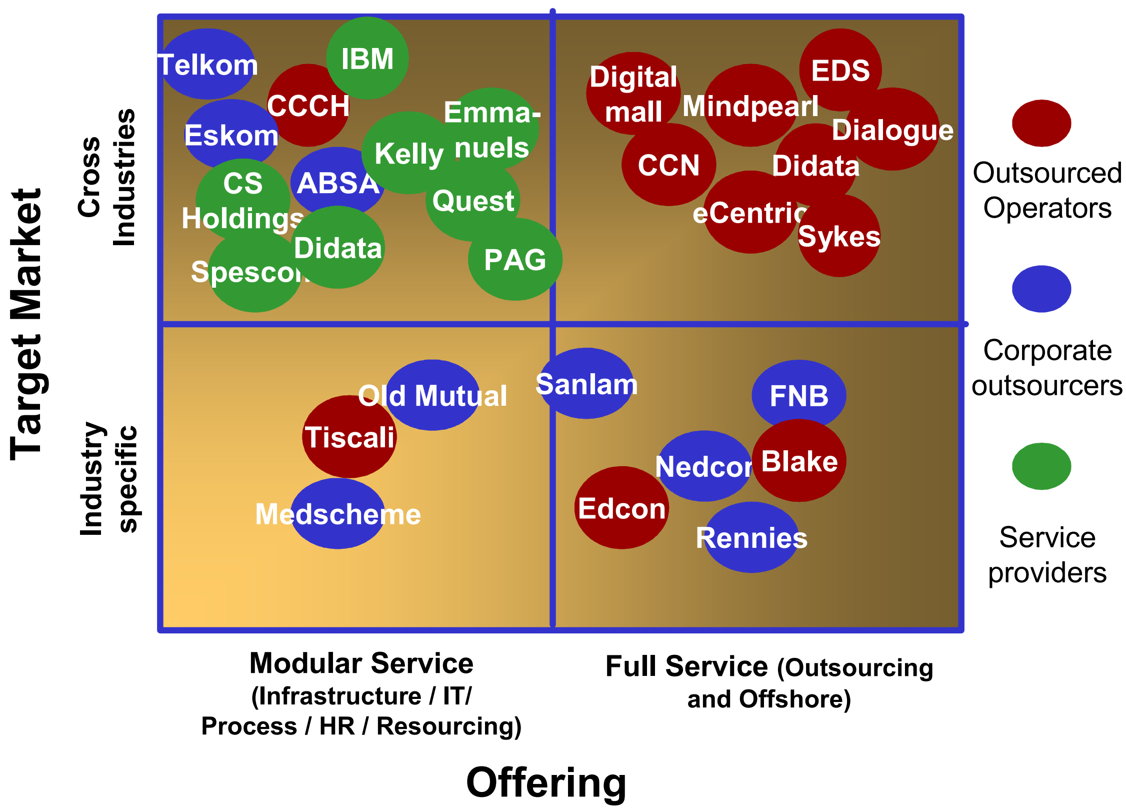
- ABSA
- Sanlam
- Nedcor
- Old Mutual
- Standard Bank
- Telkom
- Medscheme
- Transtel
- Edcon
- Rennies Travel Direct

The above list is not all inclusive, but our current perception of the market players and their focus.

2.1.7. Positioning for the players targeting the outsourcing market

The following positioning matrix is our view on the positioning of the various suppliers in the market and the focus that they have toward the international market. Their offering range from a “Full Service” (includes all the components of a fully operational CC) to specific “Modular services” e.g. supply of infrastructure, supply of labour resources, supply of facilities etc.

Figure 3: South African Outsourcing competitor positioning



Source: Paladin Consulting

2.2. Market Requirements and needs

2.2.1. Who is outsourcing

The tendency to outsource varies greatly within the vertical markets. Companies with the highest propensity to outsource are in the telecom and technology sectors, they are pressured to consider outsourcing in an attempt to reduce cost and they will continue to lead the drive for offshore outsourcing over the next 5 years.

Other sectors such as the financial services are slightly more conservative, but they will also continue to investigate the outsourcing markets due to increased size and service cost pressures. The leading industries that are driving the outsourcing of business processes are the:

- Financial services industry – includes retail banking, insurance, mortgages, etc.
- Managed healthcare industry
- Telecommunications industry (including internet service providers) and
- Manufacturing
- Travel industry, and the
- IT industry

US and UK companies that have outsourced in the past 3-5 years:

- Morgan Stanley
- Wal-Mart
- Reebok
- General Motors
- Sony
- Boeing
- Coca-Cola
- Pepsi
- Swiss Air
- United Airlines
- Philips
- Lucas
- British Airways (India)
- GE (India)
- IDLX (India)
- Dell Computers (India)
- Motorola
- Axa (Mexico)
- GE Capital (Mexico & India)
- Willis (Mexico)
- Royal & Sun Alliance (Mexico)

Most of the previously mentioned companies have outsourced to India and some US companies to Mexico. The regions that are becoming increasingly popular are:

- North Africa (French companies will look at Morocco and Tunisia for possible Call Centre operations)
- South Africa (an increasingly popular location for English and Dutch companies)
- Czech Republic, Poland & Hungary (companies from Germany and Austria will consider the synergies with these locations)
- India (British companies)
- South America (British and Spanish companies)

2.2.2. Why are they outsourcing

Call Centres are moving offshore as US and European companies look to Africa and the Middle East for low cost growth. This offshore outsourcing will grow significantly over the next 5 years as companies look to outsource non-core competencies. (Datamonitor, 15/05/03, report on CC outsourcing in EMEA)

For most companies their consideration to outsource is aimed at realising the following benefits (key drivers):

- Cost related benefits
  - Reduce operations costs
  - Reduce staff costs
  - Streamline company
  - Increase profitability
- Business / value related benefits
  - Focus on core business
  - Allow for flexible workload planning
  - Improve overall customer service
  - Access to motivated staff
  - Reduce management effort
  - Flexible contracts
  - Reduction in bureaucracy
  - Unambiguous contract
  - Competitive edge
  - Decentralisation

Although most companies consider the financial / ROI benefits the most important, the decision to outsource should be value-based and not purely cost driven. What is important is that a balance should to be struck between the outsourcing company and the supplier in order to understand the real benefits and cost savings of the initiative.

The gains that a company looking to outsource would typically be seeking include:

- Greater efficiency
- Expertise in an area that is not necessarily their core business
- Freeing of overhead costs
- Added value and experience
- Overall improvements in their balance sheet

The gains that an outsource service supplier should seek typically include:

- Flexibility for price escalation and technology redundancy
- Pressure from own investors for profit growth

2.2.3. What is being outsourced

Various business processes are being outsourced, the most common being:

- Application Management
- Call Centre services
  - Outbound tele-calling / marketing campaigns
  - Data cleaning & updating campaigns
  - Marketing / research surveys
  - Relationships services (after sales)
  - Inbound service
  - Collections
  - Email response
  - Technical support / Help desks
- Back office operations;
  - Data conversion
  - Data entry
  - Data scanning
  - Data administration & maintenance
  - Insurance claim processing
  - Medical transcription
  - Accounts payable
  - Financial accounting
  - Credit Card Management
  - Reinsurance administration
  - Management information
  - Medical & general claims processing
  - Credit Control
  - One of reconciliation projects
  - Payroll management

There are over 274,000 call centre seats in the US alone. It is estimated that approximately 500 000 seats, in total, will be outsourced by 1st world countries to lower cost destinations over the next three to five years. A new report by Frost &

Sullivan, North American Outsourced Contact Centre Services Market, estimated that outsourcing revenues hit $22 billion in 2002 in America alone. Frost projects these revenues to climb to $25.7 billion by 2009.

Datamonitor estimates that the compounded annual growth rate in the Middle East and Africa for offshore-outsourced agent positions from the US and UK will be 22% between 2003-2007, significantly above the current EMEA average growth rate of 14%.

A Mckinsey report foresees a global market worth of $140 billion dollars for call centres by 2008.

Although many companies are realising that call centre operations are not necessarily their core business, and that the cost saving with an outsourced operation could be significant, the perceived risk is still too high. Therefore, offshore-outsourcing could remain a minority interest for main stream organisations. <u>An interesting trend sees the emergence of "combined outsourcing", where companies are willing to move low-value and labour intensive call centres offshore, but maintaining high value call centres in-house or in the same country.</u>

2.2.4. Customer requirements from an outsource destination

In considering a possible offshore outsourcing opportunity, companies evaluate the prospective country / location as well as the prospective service / sales supplier and apply a set of criteria that balances the risk with the attractiveness of the outsource opportunity.

The following criterion should supply a guideline to understanding the requirements a customer has from an outsourced destination:

- **Attractiveness:**
  - Accesses to skilled workers
    - Size of the skilled labour force
    - Number of English speaking graduates
  - Cost comparisons
    - Manpower cost
    - Telecom cost
    - Cost of facilities
  - Service Window
    - Time difference
    - Potential for 24 hour services
  - Cultural fit
  - Business ethics and practices
  - Willingness to partner and commit

- **Risk:**
  - Government support
    - Tax incentives to setup offshore facilities in location
    - Special concessions to setup offshore CC operation
  - Maturity of industry
    - Current / projected size of the market
    - Existing operations of similar organisations
  - Infrastructure
    - Quality of telecom infrastructure
    - Quality of power infrastructure
    - Quality of physical infrastructure and access to locations
  - Political stability
    - Level of political stability
  - Economic stability
    - GDP growth rate
    - Inflation rate
    - Wage inflation
    - Unemployment rate
  - Client presence
    - Potential synergies from existing / planned presence of the client in that particular location

Depending on the client and their business strategy, the criterion mentioned above will carry a relative weight of importance for each parameter and will assist the client in their determination of the location and supplier fit.

2.2.5. Critical success factors for choosing an outsourcing partner

The critical success factors for companies considering outsourcing centre on 2 areas i.e. the country and the company. It is important to understand these critical success factors as an outsourcing supplier should aim to fulfill in the majority of the criteria and base its value proposition on their ability to fit the requirements best.

The following is and example of the criteria that have been identified from various reports:

		Score		
A	Labour market determinants	Excellent	Average	Poor
1	Wages, turnover, unemployment, currency			
2	Risks associated with lower / lowest cost provider			
3	Selling productivity			
4	Language, customer service, skills			
5	Training systems			
6	World-class HR practices (career promotion, recruitment, skills development, structure & process)			
7	Availability of resources, skills & reliability of the country's labour market			

		Score		
B	**Occupancy determinants**	**Excellent**	**Average**	**Poor**
1	Lease, build, tax, utilities, leasehold cost etc.			
2	Lease terms			
3	Space & architectural requirements			
4	Utilities & redundancy			
5	Cost & availability of existing properties or sites			
C	**Occupancy requirements related to turnover**			
1	Transportation access			
2	Proximity to other call centres			
3	Building image, interior esthetics			
4	Working conditions			
5	Proximity to amenities			
6	Proximity & convenient access to the rest of the world			
D	**Technology criteria**			
1	Proximity to technology suppliers			
2	Telecommunications capacity			
2.1	Telecommunications media			
2.2	Public telephone system access			
2.3	Telephone equipment			
3	Telecom switches and protocols			
3.1	Switches			
3.2	Direct inward dialing (DID)			
3.3	Automatic number id (ANI)			
3.4	Bridging			
3.5	Public vs Private system			
3.6	Packet vs. Circuit switching			
3.7	TC/IP vs. ATM			
4	IT systems Hardware & Software			
4.1	Computer telephony integration (CTI)			
4.2	CC Management software			
4.3	Integration of voice, data & video			
4.4	Unified vs. integrated messaging			
4.5	User interfaces			
5	Impact, access and use of the Internet on the CC			
6	Disaster recovery			
E	**Back Office Competitiveness**			
1	Back office competence			
2	Processes			
3	Integration			
4	Impact on technology			
5	Other			
F	**Country's government & business support**			
1	National / provincial / local			
2	Incentives & subsidies			
3	Local business support network			
4	Public & private sector support			
5	Investment attractiveness			
6	Consistent message of industry & country in international markets			
7	Professionalism			
G	**Standards compliance & rating**			
1	CC Management and operational standards			
2	ISO / COPC etc. rating			
3	International benchmarking			
4	Continuous improvement activities			

		Score		
H	**International competitive telecommunications**	**Excellent**	**Average**	**Poor**
1	All carrier (availability & cost of modern telecoms)			
2	Cooperation & commitment with the CC industry			
3	World-class services			
4	Competitive offerings & tariffs			
I	**Operational**			
1	Low operational costs			
2	Performance measures			
3				
J	**Regulatory / Legislative enablers**			
K	**Scenario planning & offering**			
1	Contract outsourcing (why, when is it appropriate & benefits			
2	Joint venture			
3	Owned			
L	Country Situation			
1	Security risks & issues			
2	1st - 3rd world			
3	Access			
4	etc			

2.3. Pricing Options

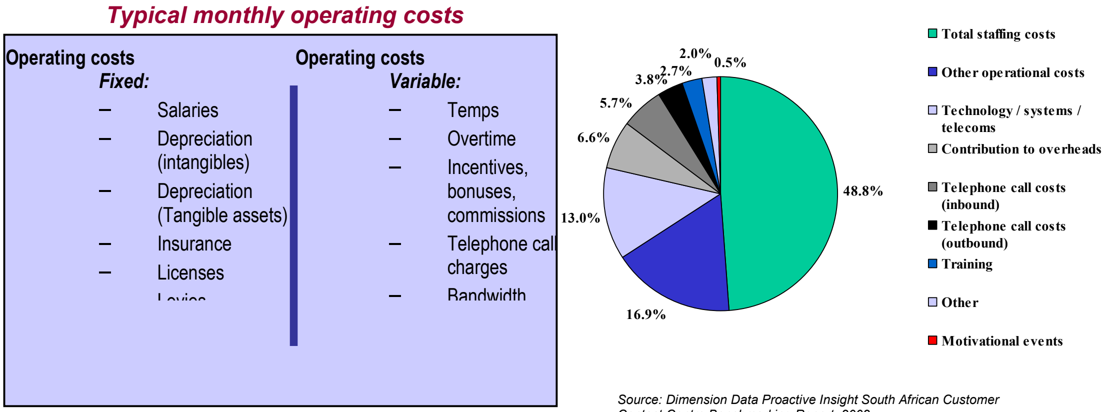
2.3.1. The cost profile of a generic Contact Centre

Contact centres have different cost profiles that are largely determined by the nature and mix of services offered. However, despite the varying cost profiles the cost categories are likely to remain the same for most contact centres. Examples of typical call centre operating costs would be:

- Facilities charges – including rental, insurance, light, electricity etc.
- IT and Telephony charges – including purchases, repairs, consumables, depreciation
- Call charges – in and outbound calls, emails, sms messages etc.
- People charges – including recruitment, salaries, fringe benefits, allowances, exit costs, overtime, maternity & paternity leave, training, incentivisation, coaching
- Other operating expenses – including communication, travel and entertainment, printing and stationery, marketing and advertising, procurement, etc.

- Overhead charges – made up of your fixed costs (includes finance and other administrative support services) necessary for the conducting of day to day business

Figure 5: Example of the monthly operating cost profile of a contact centre



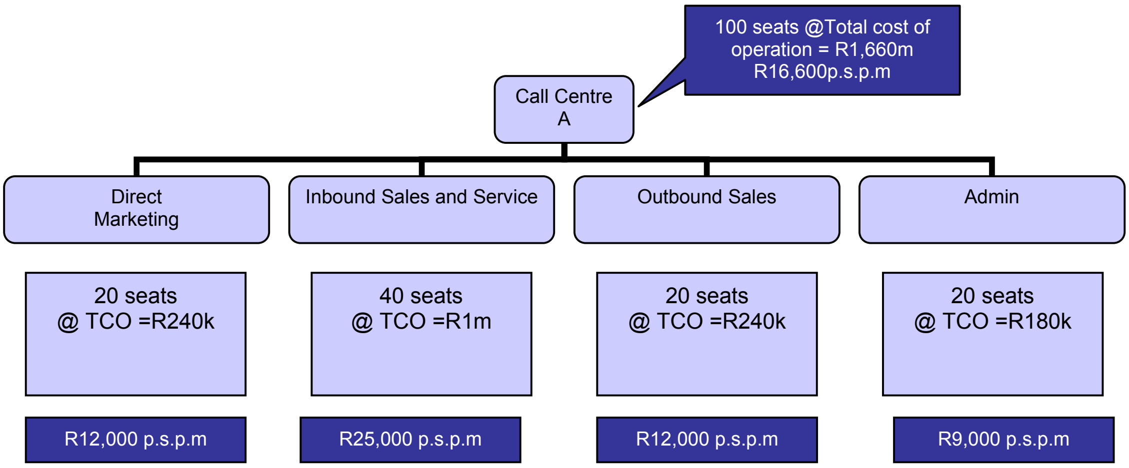
Source: Dimension Data Proactive Insight South African Customer Contact Centre Benchmarking Report, 2002

Should you be operating a multi-desk operation, it is most likely that you incur different costs for your different desks, based on the functionality required by each desk, the skills of the people operating the desk and the operating hours of the desk.

It must be noted that the profiles will also differ by geographic region with local social and economic factors driving the profiles. For example, the staff costs in the USA represent a much higher percentage of total monthly operating costs (up to 74%) that they do in South Africa.

In a multi-service environment, the overall cost profile is likely to be different for each different type of service offered. The following figure illustrates the point that the total cost of ownership of a contact centre can be decomposed to the level of the different contact centre desk groupings e.g.: marketing, sales, service and admin and that, once such decomposition has taken place, the unit costs per seat change based on the different functionality offered, skills required and operating hours.

Figure 6: Total cost of ownership (monthly operating cost) decomposed to functional / desk level



Source: Paladin Consulting

2.3.2. The differentiated costing and pricing alternatives

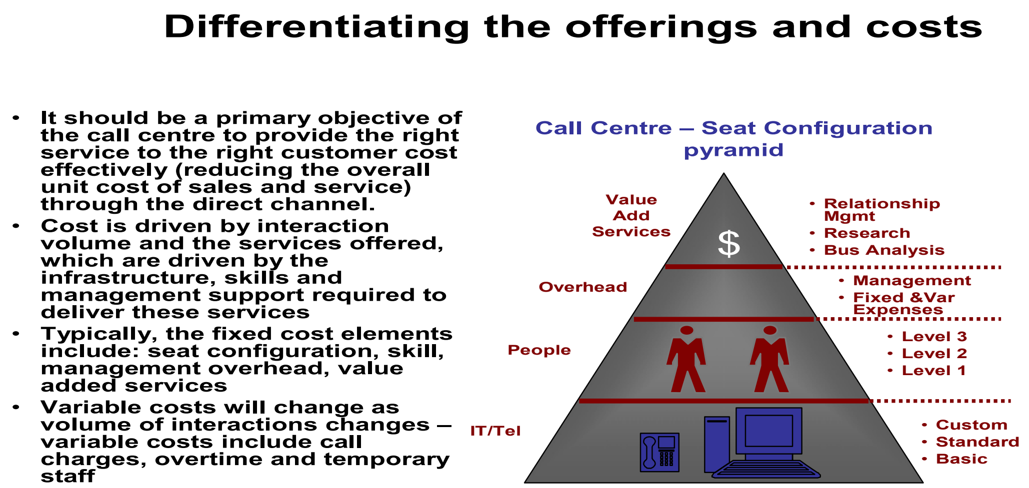
Depending on the economics associated with the different service events, the channels / media being used to interact through, the processes being performed, and the international customer's expectations, a differentiated service strategy and differentiated service and cost model can be developed.

In the model, cost should be differentiated on the basis of the services offered and volume and price on the basis of the potential value of the service events and interactions. Typically, these services are provided by means of a combination of some or all of the following:

- A specifically configured seat – e.g.: configuration can range from basic to custom depending on the functionality provided to the workstation. Functionality could include some or all of the following: Soft-phone, CTI, voice logging, quality management, a standard operating system, and a work package such as MS Office, a CRM application, a web interface (portal), and workflow.
- A number of specifically skilled Advisors - typically there are three agent skill levels in the industry – Level 1 to Level 3. The desk could require an admin agent or a specialist, such as a financial advisor.
- A direct management overhead that includes operations management, training, Subject Matter Experts (SMEs), quality assurance, MIS, and other non-call-handling resources.
- Connectivity and call charges, and
- An overhead contribution for value-added services such as relationship management, research, development, business analysis, etc.

The cost elements are illustrated in the seat configuration pyramid below.

Figure 7: The Seat configuration pyramid



Source: Paladin Consulting

Based on the type of functionality and skill required to deliver the required service cost effectively, a number of configuration options can be developed. This flexibility caters for cases in which the customer wants to own their own people, or part or all of their IT and Telephony infrastructure, or where they want to provide Subject Matter Experts (SMEs) to the operation to assist with query escalations. Each of these options will have a different cost associated with it. This provides the customer with flexibility and allows a customer the opportunity to pay for what they use rather than to pay one price for all types of functionality and skill required.

The table below provides an illustrative example of five different configuration options, ranging in cost from R 10,950 per month to R 23,950 per month.

Configuration option	A	B	C	D	E
IT Config					
Simple	R 3,500			R 2,500	
Standard		R 6,000			
Custom			R 8,500		R 9,000
	R 3,500	R 6,000	R 8,500	R 2,500	R 9,000
People Config					
Level 1	R 5,500				
Level 2		R 6,500			
Level 3			R 7,500		
Admin				R 4,500	
SME					R 9,500
	R 5,500	R 6,500	R 7,500	R 4,500	R 9,500
Overhead					
	R 2,000	R 2,200	R 2,500	R 1,500	R 3,500
Value Add					
Rel Mngmt	R 500	R 500	R 500	R 500	R 500
Research	R 0	R 0	R 250	R 0	R 250
BA	R 0	R 0	R 1,200	R 0	R 1,200
Other					
	R 5,400	R 4,900	R 4,400	R 2,450	R 1,950
Total - Monthly seat cost	R 16,400	R 19,600	R 22,900	R 10,950	R 23,950

Differentiated costing model based on various configurations of infrastructure, people, overhead and value add services

2.3.3. Pricing models to consider in the outsourcing model

With the differentiated costs, associated with different service offerings, clearly quantified and understood consideration should be given to the pricing models typically in use. A number of these models, specifically for an outsourcing engagement, are discussed briefly in this section.

- **Per hour**

The simplest pricing model is payment per hour. This sets aside volume-based measurements and focuses on activity rate. Depending on the type of activity undertaken, typical agent hour costs (including project management, training, process design, scripting and so on) may range from under $18 to $27 per hour or more, rising to $50 for technical support or specific professional services.

Contracts for the hour should be for a dedicated agent resource. The hour is a relatively cumbersome unit on which to purchase telephone activity. Where large blocks of incoming calls can be guaranteed, this may be less of an issue. Forecasts of call volumes should be short-term – potentially only two or three days out – allowing the supplier time to provide the resource, whether increasing or decreasing it. For suppliers, per hour deals are attractive because they contain a known margin.

Establishing service levels and activity rates can be difficult, as there is little incentive for suppliers to suggest higher levels. Careful management is necessary if no agreements are in place to avoid excessive agent downtime which will incur costs for unproductive time.

Per hour deals are transparent, easy to understand, simple to construct and are the dominant model in the international marketplace.

- **Per Sale**

Payment by results has always been a relatively under-exploited approach to contact centre outsourcing. This type of contract is usually driven by a desire to bring down overall costs, and can be resisted by suppliers who do not view sales as their core competency. However, it can provide an incentive to improve performance and to take a risk-sharing approach to a contract.

Pure payment per sale contracts are rare as they do not guarantee a supplier that its cost base will be covered, except if a business minimum is guaranteed, with penalties against the company for failing to deliver. However mixed remuneration deals are often struck where a lower cost per hour, e.g. $15, is accepted in addition to a sales related bonus.

There is an argument in favour of mixed pricing, because where a fixed payment per sale has been agreed, the company's cost per sale does not improve as the supplier's performance improves. Under mixed pricing, both parties have benefits and rewards at the same time and should therefore be encouraged to work closer together.

It is essential that frequent review periods are set due to the importance of accurate forecasting. An annual (or longer term) contract without review periods is likely to be disproportionately biased towards the supplier by its end. This is due to their continued improvement after the test period and therefore over-performance against a target set too low.

Few per-sales contracts are open-ended and they are generally applied to tactical sales campaigns only.

- **Volume models**

Contracts based on payment per call or per minute have been popular because they fix costs against the actual service delivered. The company can manage costs by varying the inputs which affect call volumes, such as marketing activity or promotional drives. Typical costs per minute charges range between 75cents and $1.00 and usually include telecommunications costs, but not set-up and administration fees.

It is important to recognise that the tougher the service level, the more resource the supplier will need, and hence the more costs will be passed to the client. A service level of 100 per cent of all calls answered within ten seconds is unrealistic and unaffordable. It is better to aim for a satisfactory compromise.

The advantage of paying per call or minute is that no payment is due when no calls are received. The downside of volume-based pricing is that it never gets cheaper, unless the contract specifies a tiered or ratcheted payment structure. With payment per hour, improved efficiency by the supplier can increase the volume of calls handled or even sales achieved, so the cost drops.

Forecasting of call volumes is important because of the effect of productivity. If only two-thirds of the forecasted call volumes are received, the supplier will have one-third of its agents idle, reducing the average activity rate.

The outsourced service provider sector is moving away from proposing payment per call or per minute, as it does not provide income guarantees or long-term stability.

Volume-based pricing is becoming a niche-service, as it relies on a multiple client base to be successful.

- **Fixed price models**

Fixed fee payments are popular in IT outsourcing where the activity and resource required can be tightly defined and controlled. The attraction to a business of this type of contract is that it allows for exact financial planning, since the exposure is set from day one.

Volume-based activity and per sale pricing means the company's commitment may fluctuate. If a guaranteed level of activity exists which will be consistent throughout the lifetime of the contract, then this type of deal may indeed be appropriate. With call centres, this is rarely the case and is likely to lead to unfavourable outcomes for the company and/or the supplier.

The biggest issue is frequently the lack of transparency and visibility of how the operation is performing and at what cost or quality level. The supplier can hide behind a curtain of the fixed fee, while the client lacks any incentive to get involved, support or help drive the business.

- **Open book pricing**

Increasingly, outsourcing is being viewed as a partnership between the company and the supplier. Instead of the combative approach to the contract, in which each seeks to improve it in their favour, it is accepted that there is a value to the work to be done, and that the outsourced service provider should make a fair profit on the job.

Under open book accounting, there is transparency by the supplier about the cost base for the project and the overheads allocated to it. The focus of negotiation is then on whether the costs are acceptable and have been fairly arrived at, what risks are to be shared, and what the agreed margin for the job should be.

As the contract progresses, the supplier delivers fully auditable accounts with the agreed mark-up. This ensures that both sides feel the deal is equitable. The major area of difficulty in such agreements is in determining how to assign the overheads and what burden the company should bear for the supplier's operating costs.

Bigger contracts are tending towards this approach, often via a 'near open book' solution in which some costs are presented in aggregated form, rather than being fully transparent. This allows the supplier to make adjustments internally to account for fluctuations in business activity and costs.

Open book accounting does require a genuine view of outsourcing as a partnership. Many companies talk about outsourcing to partners, but they still deal with them as suppliers.

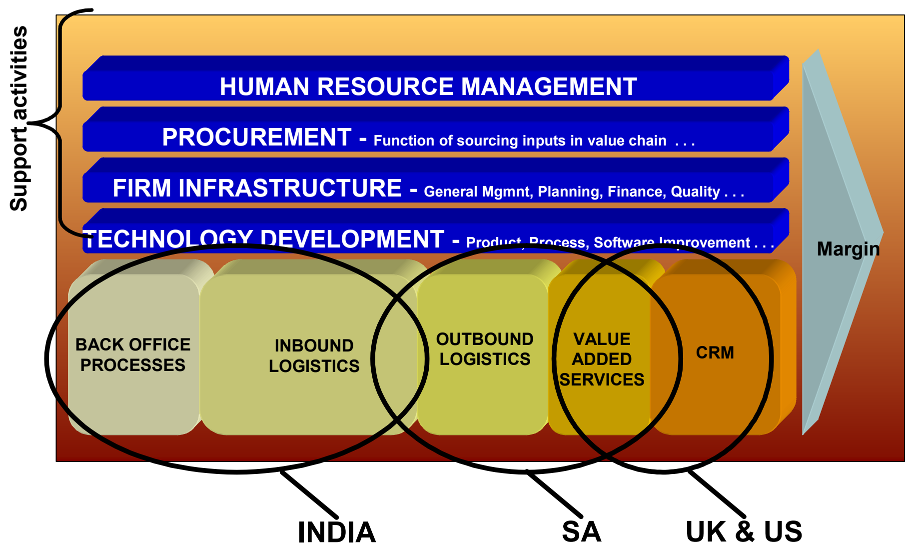
3. Recommendations

Given our experience, our understanding of the competitor environment, the market trends, opportunities and the strengths of the South African offering, we would recommend the following to companies that are considering supplying services to the international market:

- Focus on the client's requirements – we tend to forget that we are the supplier and are overly assuming in our approach to dealing with international opportunities. Be customer-centric and adaptable, but confident in your focus and strategy.
- Know your strengths, your area of expertise and your industry, then focus on supply differentiated services based on your capability.
- Design your value proposition around your strengths and strategic focus.
- Choose the market segment(s) selectively – don't try and be all things to all opportunities.
- Start small, prove your capability and grow once your model and ability has been tested.
- Apply rigor to your commercial models, be conservative, and allow for the unforeseen e.g. currency fluctuations, ability to re-negotiate after test run etc.
- Make calculated decisions based on business cases to understand the impact on your operations and the potential benefit. If the benefit is not clear, don't do it.
- Focus on the most logical position in the value chain i.e. SA cannot compete against India on "pure price", focus on benefit, superior service and quality delivery to add value to the client's business.

Figure 8: The logical SA market position

Opportunities areas for focused outsourcing



Source: Adapted from Taelus Limited

- Do not under estimate the importance of understanding and training on the customer's products and processes.
- Always be aware of your impact on the SA experience and perception, you have a responsibility to the industry and the country.
- Share learning and knowledge – approach other industry players to collaborate for success.
- Help, assist and/or invest in efforts focused on training and uplifting skills to create a sustainable supply of qualified resources to the industry.

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6. Dialogue UK – www.dialogue.co.uk
7. Dialogue SA – www.dialogue.co.za
8. Global Telesales – www.globaltelesales.co.za
9. Generation Direct – not available
10. Tiscali World Online – www.tiscali.co.za and www.tiscali.com
11. Digitalmall – www.digitalmall.com
12. Rennies – www.rennies.co.za
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