by Cara Curtland, Brian Cargille, Scott Ellis and Ross Goodwin

The story of how one company – Hewlett Packard – analyzed the costs and benefits of moving their call centers to a lower-cost location.

Is Offshoring Really Cheaper?

Lured by the prospect of reduced operating costs, more and more businesses are moving customer call centers to low-cost regions where inexpensive, skilled labor is plentiful. Examples include India, the Philippines, Northern Ireland, and a variety of locations in the Americas. Support executives should consider labor savings, start-up costs, and affect on customer satisfaction (which, by extension, impacts future product sales and profits) in their choice of locations. Hewlett-Packard Company (HP) makes these decisions using an innovative, simple analysis approach. In this article, we show how we do the analysis, and provide guidelines for similar efforts.

In addition to this article, we encourage you to go on-line (www.callcentermagazine.com) where we provide an extended "Formula" section using illustrative data to provide detailed instructions for applying these calculations within your own business. You can use the formulas to calculate whether a previous call center move was a wise investment and to estimate the expected profit impact of a planned call center move.

HP, like many businesses, faces increasing pressure to reduce warranty costs. For consumer electronics companies, call center expenses are a significant portion of these warranty costs. Call center expenses are primarily driven by labor, which translates into cost-per-call-minute. In 2002, HP decided to explore the viability of transferring some of its call center activity to lower-cost regions.

During the trial stage of this project, HP worked with two call center partners to open new centers in a lower-cost region for two of its product lines where well-educated candidates with good technical skills are plentiful, often at less than half the labor cost of the existing sites.

Roughly seven months after the transition, HP's support executives came to HP's Strategic Planning and Modeling group (SPaM) to determine if additional call centers should be moved to low-cost regions, and if so, at what pace. To provide an answer, we looked closely at our recent experiences and asked these questions:

- **Call cost savings.** How much was saved from moving these operations?
- **Transition costs.** How much did it cost to make the transition?
- **Customer satisfaction and impact on profits.** How did the move affect customer satisfaction, and did this change affect profit?
- **Net impact.** Was this a good idea? Should we do it again?

What we discovered was compelling. The transition reduced call costs by over $5 million per year for the two product lines combined. The cost-per-call-minute was less than 50% of existing partner's rates. In addition, the time to resolve issues was often lower in the new region, and was never more than 20% higher. The number of calls per resolution was only marginally different; in a worst-case scenario, they were only 10% higher.

One-time transition costs were approximately $100,000, or $50,000 per location. These costs included training, equipment, and salary/travel expenses for HP's transition teams. The teams included product, process, and quality engineers, as well as call center trainers.

Regarding profit impact of customer satisfaction changes, the results varied across partners and product lines. Negative satisfaction impacts were somewhat mitigated by a graduated approach, where call volumes were added to the new sites slowly, and only as satisfaction scores improved. This meant that in many cases, customer satisfaction experienced a net increase from transitioning to the low-cost region call center sites. In the worst case, there was less than $100,000 of lost profit, measured as Net Present Value (NPV).

Overall, the net impact was uniformly positive across both call center partners and both product lines. The break-even time for the investment varied, but was never greater than six months. (The accompanying chart shows how the decision process was analyzed.)

As a result of the analysis, we confirmed significant differences between the two pilot partners. Our data suggests that some partners can outperform others on a sustained basis in terms of customer satisfaction, number of calls per resolution, minutes per call, and cost per call minute. This encouraged HP executives to investigate restructuring the call center contracts in two ways:

- Pay per resolution instead of per call minute.
- Reduce penalties associated with minimum demand requirements.

The recommendations were as follows:

- Move call volumes to new sites incrementally based on performance, so that call volumes stay in step with performance increases.
- Make some upfront investments in training to reduce ramp-up time.
- Add more operations in the proven low-cost regions quickly.

Accounting for all the costs and benefits in a call center transition is not possible, nor is attempting to do so a good use of resources. Our analysis approach has the following benefits:

- It can be undertaken with data that is readily available.
- It is straight-forward, easily understood, and credible with senior management.
- It can be completed in less than three months.

HP has accelerated its movement of call center volume to low-cost labor regions. This analysis changed the thinking of the HP support executives managing North American call center demand. Formerly, they were asking, why should we move our call centers? After reviewing the analysis, they began asking a different question, namely, whether they should leave any call center operations in the current high-cost regions. India, Philippines, Northern Ireland and a variety of locations in the Americas can deliver comparable or better performance at a fraction of the cost.

Our support management team is now aligned on one approach to measuring all costs of call center transitions, including the once evasive customer satisfaction costs. More energy can now be spent on activities to provide benefit to HP and to our customers. Our support executives tell us that this analysis approach created an additional $4M benefit to HP by improving alignment among managers, and accelerating implementation.

So, is it *really* cheaper? For HP, in the locations that we have selected and with the partners we have chosen, the answer is a definite yes! ☎

— Cara Curtland, Brian Cargille, Scott Ellis and Ross Goodwin work at Hewlett-Packard Company.