Call Center Trends

By Dennis J. Donovan & David Laszlo, Wadley Donovan Gutshaw Consulting

Site Selection Dynamics for Call Centers

The last decade has seen an explosion in customer service related jobs (outpacing U.S. private sector job growth in each of the last ten years), thanks to the rapidly changing world of technology and the rising influence that customer relations can have on a firm's bottom line. Furthermore, many back office and business processing (BPO) tasks that traditionally required a separate workforce in each divisional office can now be handled from one or two centralized locations.

Navy Federal Credit Union Call Center – Pensacola, FL

As call center demand continued to push for more seats during the 1990s and 2000s, many large and mid-sized firms outsourced these centers to places like Canada, India, Philippines, South America, Central Europe and eventually Africa and Asia. Labor costs were almost always the primary driver. Today, customer complaints and other quality assurance issues combined with less than optimal productivity levels has begun to reduce savings created from outsourcing these centers. Many U.S. firms are now looking onshore (and/or nearshore) to place new contact centers and some companies have even reshored existing centers after struggling to achieve desired results overseas.

Location Criteria

Labor market absolutely predominates location criteria for call centers. It is critical that prior to selecting a final location, the company's project team has maximum confidence that today's labor market advantages will persist well into the future. In other words, the three-pronged labor equation – supply, quality, and cost – will likely be attractive at least several years down the road. One of the biggest mistakes made in call center site selection is choosing a location where labor market saturation and consequent challenges (shortages, quality deterioration, rising turnover, escalating costs) emerge. Labor legislation including hiring/firing can also be important, especially offshore.

Beyond labor market other predominant criteria include:

- Available office space
  - ❑ Most companies prefer not to build from scratch

About the Authors

Dave Laszlo is a consultant with Wadley Donovan Gutshaw Consulting (WDGC) based in Bridgewater (NJ). Dennis J. Donovan is one of WDGC's principals. The firm advises industrial and service companies on corporate site selection. Client projects have involved numerous call centers.

- ❑ Plug-and-play preferred (but not easy to find)
- ❑ Former retail often acceptable
- ❑ Reasonable occupancy costs (often less than $20/SF)
- ❑ Employee amenities (e.g., cafeteria, wellness/fitness, concierge) on-site or within a short drive
- ❑ Dual electric power and telecom feed can be important
- Air service/cost
- Taxation (e.g., sales tax on interstate telephone calls)
- Natural disaster risk
- Political/social stability (e.g. key for offshore)
- Inflation rate and currency stability (key for offshore)
- Time zone (many companies prefer geographic balance)

The Selection Process

At the outset, the study framework must be established. This embraces the following:

1. Assembling a project team
2. Defining the objectives/expectations
3. Quantifying operating requirements including number of seats, headcount, requisite experience level, and new hire selection criteria
4. Operating requirements also include office space, capital investment, telecommunications, air service etc.
5. Delimiting and weighting location criteria
6. Establishing a timeline (working back from initial occupancy date)

Subsequent to delineating baseline information, a two stage analytical process is followed to select the ultimate site. Dimensions of each stage follow:

Stage One: Elimination Process

Begin with elementary criteria and then integrate more restrictive requirements. The objective is to generate a shortlist of 3-5 finalist locations.

Location screening factors could embrace the following:

1. Median market wages
   - Customer Service Related (e.g., CSR, TSR, Loan Interviewer)
   - Underemployed (e.g., Retail Clerk, Teller, Cashier)
   - Other (as appropriate)
2. Available office space
3. Air service
4. Selected tax practices/rates
5. Potential incentives
6. Natural disaster risk
7. Time zone

Stage Two: Field Evaluation

In this stage, the siting team visits each finalist location. Considerable attention is paid to current and emerging labor market dynamics. Importantly ascertaining the essentials for the new center to achieve/maintain "employer-of-choice" status is paramount.

NARS Call Center – Cape Girardeau, MO

During field visits, the team undertakes the following:

- Interviews with call centers and other back office operations (focus on past, current, projected labor market experiences)
- Interviews with other pertinent groups (e.g., staffing agencies, workforce boards, commercial realtors, economic development groups, training/education officials, etc.)
- GIS mapping to delineate the optimal sub labor markets
- Tours of available office/former retail buildings (and possible sites for build-to-suit opportunities) within the preferred submarket
- Due diligence on other factors (such as taxes, air service, and natural disaster risk)
- Obtaining a preliminary incentives package from the lead economic development agency
- Rank/score each location
  - ❑ Labor market
  - ❑ Operating conditions
  - ❑ Quality-of-Life
  - ❑ Cost
    - – With incentives
    - – Without incentives
- Select at least one area and a back-up for final real estate and incentives negotiation

A few cautionary notes about incentives should be highlighted. They are:

- Meaningful incentive are becoming more difficult to secure for all call centers (pay scale usually the issue)
- Many incentives are tax credits
  - ❑ Most call centers are not profit centers
  - ❑ Credits often not transferable or refundable
  - ❑ Often credits of little value to call centers
- Best incentives are cash, performance based (such as % of payroll over several years)
- Incentives can drive a project to less populated and/or environmentally depressed areas, which could compromise labor supply/quality objectives
- State/local deal closing funds can be attractive
- Sales tax refunds/exemptions can be important for more capital intensive projects
- If the company expands can a new round of incentives be earned
- Are there restrictive 'clawback' provisions
- It is critical to place "usable" incentives into the big picture
  - ❑ As a cost offset (e.g., to payroll), do incentives appreciably change comparative economics (one location vs. another) over the mid to long-term
  - ❑ If one labor market is clearly the best, should the company opt for another area where incentives are better

Geographic Trends

Salient geographic trends include:

- Preponderance locating in small to mid-sized metros
  - ❑ Why: Labor market (supply, quality, cost)
  - ❑ Sweet spot tends to be 50,000 – 500,000 population
  - ❑ Low cost 2nd tier metros up to 1.5 million also fairly popular
  - ❑ Call centers going to larger tier metros tend to be higher end in terms of skillset criteria (e.g., industry experience; college grads)
  - ❑ Examples are shown in photos 2, 3 and 4 (call centers operating in small towns)
- Companies exploring outer-shore location strategies
  - ❑ Offshore to serve customers in the target region

C-3 Call Center – Twin Falls, ID

- Offshore to serve US market
- Offshore to serve both overseas and U.S. markets
- More often than not, offshore will be in lower cost countries
  - Size and language requirements dictate the countries/metros that can be considered.
  - Again, many firms are opting for second/third tier metros for labor market reasons
- U.S. firms will look around the globe but there will be greater emphasis on near shore to Latin America
  - Cost competitive and can find English speaking in many countries
  - Easier to manage (e.g., travel & Time Zone)

Among countries that will likely be capturing more call center investment over the next several years are:

- The Americas:
  - Argentina (second & third tier metros)
  - Brazil (second & third tier metros)
  - Columbia
  - El Salvador
  - Honduras
  - Panama
  - U.S. (small and mid-size metros)
- Western Europe
  - Netherlands (especially for multiple languages)
  - Northern Ireland
  - Portugal
  - Spain
  - United Kingdom (second & third tier metros)
- Eastern/Central Europe
  - Bulgaria
  - Croatia
  - Estonia
  - Latvia
  - Poland
  - Romania
  - Russia
  - Serbia
  - Turkey
- Asia
  - India (3rd – 5th tier metros)
  - China (English speaking can be an issue so largest metros)
  - Sri Lanka
  - Philippines (2nd and 3rd tier metros)
  - Malaysia
- Africa
  - Mauritius
  - Morocco
  - Ghana
  - South Africa
  - Kenya
  - Uganda
  - Botswana
  - Tunisia
  - Senegal
  - Tanzania

The illustrations below support the emergence of countries and smaller communities as viable options for location of call centers:

Walgreens Accounting Center – Danville, IL

- Small to mid-sized U.S. (all under 100,000 county population)
  - C-3 – Twin Falls, ID
  - Cabela's – Grand Island, NE
  - Convergys – Valdosta, GA
  - ICT – Morgantown, MW
  - NARS – Cape Girardeau, MT
  - Stream – Vermillion, SD
  - Walgreens (Accounts Payable) – Waverly, IA
- Reshored from India to U.S.
  - Carbonite – Lewiston, ME
  - Chrysler – Salt Lake City, UT
  - Dell – Nashville, TN
  - Expedia – Southeast OH
  - United Airlines – Chicago, IL
- Latin America
  - Convergys – Bogota, Columbia
  - Dell – Santiago, Chile
  - HP – Cordoba, Argentina
  - Mercury Communications – San Pedro Sula, Honduras
  - Perot Systems – Guadalajara, Mexico
  - Sitel – Managua, Nicaragua
  - Stream – San Salvador, El Salvador
  - Sykes – Curitiba, Brazil
- Eastern/Central Europe
  - International Paper – Krakow, Poland
  - Lufthansa – Ankara, Turkey
  - Oracle – Bucharest, Romania
  - Printec Electronics – Zagreb, Croatia
  - Sitel – Belgrade, Serbia
  - Stream – Sofia, Bulgaria
- Other
  - ADP – Tunis, Tunisia
  - Ceridian – Ebene, Mauritius
  - Dell – Penang, Malaysia
  - Rising Data Solutions – Ghana, Accra
  - Samsung Electronics – Chandigarh, India (4th tier)

Closing Thoughts

In closing, we have learned that the following overarching precepts should be adhered to for successful call center site selection:

1. Assemble a project team composed of internal and external expertise.
2. Determine a "drop dead" date as to when the new facility should be operational.
3. How does the new center fit in with the current global footprint/portfolio?
4. Is there a targeted geography?
5. What will be the headcount and other operating requirements both year one and future?
6. What is the maximum size (SF and seats)?
7. What is the outside tolerance for salary levels?
8. What are ideal hiring characteristics for customer service reps (e.g., education, demographic, experience)?
9. How important is air access, including a one day travel itinerary?
10. What are the basic dimensions of a disaster recovery plan?
11. Do most new hires have to possess industry and/or functional experience or can most be qualified entry level?
12. Is Time Zone/geographic balance important and why?
13. Maintain an attractive internal operating environment (including ergonomics) that avoids bullpen appearance and enhances recruitment/retention of top caliber labor (see Navy Federal Credit Union pictured).
14. Be as certain as possible that the ultimate labor market will bring your new center a sustainable "people and cost" advantage.
15. Don't be lulled into thinking that the best incentives package equates to the most viable site for your new center.

By following these precepts a structured process can be implemented to find an optimal location for the new call center. And remember at the end of the day future success will boil down to labor, including sustainability of apparent advantages in the targeted location.