Emerging Trends in Global Contact Centres

In inTouch issue1, I explored the migration of contact centres from the UK to the most important offshoring destination, India. In this follow-up article I examine broader trends in the global market for voice services.

Relocation from the developed to low-cost developing countries now extends far beyond earlier experimental phases. As firms have shifted from tactical to strategic, and even to what is known as transformational offshoring, the scale, diversity and complexity of services subject to migration have grown. The increasing use of the term 'global service delivery' reflects real changes in the rapidly evolving geography of sourcing.

Increasingly emerging are multi-locational, multi-site strategies - from both demand and supply sides - which capitalise on differing combinations of available skills and resources, and which may serve different markets or customer segments. For example, a firm seeking lower-cost solutions may simultaneously source English-speaking voice services from India or the Philippines, Spanish language services from Mexico, technical requirements from Eastern Europe and so on.

Reflecting industry practice consultants such as A.T. Kearney urge companies to develop 'cluster' footprints where the aim is to have primary locations supported by secondary locations. Flexible transnational models mitigate risk and exploit scale economies, but are also sensitive to linguistic needs, time zones and talent pools. Of course, only the largest companies can pursue these strategies. For those seeking modest offshoring a single country strategy may be all that is needed.

Nevertheless, multinational companies (MNCs) in business services have transformed the global landscape. Some MNCs are generalist providers, such as IBM, Convergys and Accenture, the last named now having more employees in India than in its U.S. homebase. The ability to 'source' from different geographies is enhanced by acquisition. For example, IBM acquired leading Indian BPO company Daksh in 2003, enabling it to expand capacity at a stroke in the Indian 'space'.

Others focus on customer contact. Teleperformance has 293 centres servicing 75 markets from 13 nearshore and offshore locations. Sykes has eight centres in the U.S. and the Philippines, ten in Canada, two in Argentina and China, one in El Salvador, Costa Rica and Brazil, and eighteen in EMEA. These are simultaneously onshore, nearshore and offshore providers, delivering services in multiple languages appropriate to different customer bases.

Others deliver in-house, 'captive' services from multiple destinations. HSBC has Global Service Centres in eight countries with 20,000+ employed in India. Indeed, HSBC illustrates how the tentacles of global sourcing are reaching previously untapped destinations in the search for skills at lower cost relative to developed countries. By late 2007 it employed 500 in Malta providing U.K. credit card services.

Indian BPO companies, driven to compete with U.S. providers, have moved beyond single-shore offerings to become transnational operators. The most significant case is GE which metamorphosed from a 'captive' into Genpact, a global third-party delivering services from India, Hungary, Mexico, Japan, Philippines, China, Romania and Spain. In turn, Genpact has stimulated Indian suppliers to develop global footprints (e.g. Evalueserve in China, Infosys in Czech Republic). Indian firms now own several U.K facilities. 'Reverse shoring' includes HCL in Belfast, FirstSource with two facilities in Northern Ireland and Tata Consultancy Services in Peterborough. Hero-ITES purchased Scottish-based outsourcer Telecom Service Centres in 2007.

The advent of global service delivery does not imply a level global playing field. India remains the outstanding location, comprising half of all offshored business services and employing up to half-a-million in voice services. However, less is known about the second most important destination, the Philippines, although in many respects it is a growth story as remarkable as India's. As late as 2003, the Philippines had only 20,000 contact centre seats, by 2007 200,000 were employed. Spectacular demand-led growth, running at over 50 per cent per annum according to the Business Process Association/Philippines, is facilitated by the annual flow of 400,000 fresh college graduates with advanced English proficiency and close cultural affinity with western, particularly U.S., culture. Unsurprisingly, 90 per cent of the industry faces the U.S.

Government initiatives have proved influential, whether the launching of the Philippines Cyberservices Corridor encouraging location beyond Metro Manila, the menu of tax incentives for foreign investors or the P500m pumped into educational programmes, including intensive training for 'near hires', those applicants whose skills fall slightly below hiring companies' requirements. Fundamentally, there is the bottom-line of costs, which are widely cited as comparable to India. Significantly most sizable Indian companies now have operations in the Philippines, joining U.S. based MNCs and indigenous suppliers.

If the Philippines appears as an attractive English-language offshoring alternative or complement to India, it is not without challenges. Rapid growth is generating recognisable difficulties. Tight labour markets and an over-dependence on contact centres induce attrition, while currency appreciation has increased wages in U.S. dollars.

Another growing English-language location is South Africa, which is expected to have 940 contact centres by 2008, doubling the number for 2003. Equally striking, though, is the sheer diversity of locations now considered as offshored destinations. Stimulated by India's example, Latin American states have promoted contact centres, servicing clients nearshore in North America and remotely to Spain. Further, it is claimed that new Central and Eastern European locations (e.g. Bulgaria, Slovakia, Baltic States) are outshining more established ones (e.g. Czech Republic, Hungary). Harder evidence indicates the small scale of operations. Datamonitor (2006) calculated agent positions for Estonia, Latvia and Lithuania at only 9,000, 1,000 and 2,000 respectively.

The case for many locations is non-proven and capacity is infinitesimal in comparison to India or the Philippines, let alone onshore or nearshore (e.g. Canada) locations, where the bulk provision still remains. The general point is that the potential of many newer destinations should not be confused with the reality and their scalability is questionable. A sense of perspective is required.

Global re-location largely follows the contours of linguistic and cultural compatibility, often the legacy of empire and colonialism. Thus, the largest proportion of relocated services is in the English language. The limited French offshoring has been to the francophone countries - Morocco, Tunisia and Mauritius. Services from Spain have migrated to Latin America, which also serves Spanish-speaking North American. The Czech Republic, Hungary and Poland are the most important destinations for German speaking services. Wherever language capability exists in low-cost developing countries, companies will attempt to leverage cost advantages through relocation. Even small pockets are sourced. For example, Dalian, a city in north-east China, is a Japanese hub because it has around 100,000 Japanese speakers

To conclude, contact centres remain highly sensitive to the availability of advanced linguistic skills. Consequently, despite rapidly expanding numbers of English-speakers the relocation of voice services to China is not a viable proposition, notwithstanding evident cost attractions. The fact that multilingual centres remain concentrated in the U.K. (particularly Scotland), the Republic of Ireland and the Netherlands reinforces the point about linguistic sensitivity. Scarce European languages in India means that multilingual centres are not feasible, other than for delivering domestic services in different Indian languages. Contact centres cannot be located just anywhere.