

Outsourcing: When, Why and How to Manage

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“Out-Sourcing” is about a few simple things

What do you want to accomplish?

How do you want to do that?

Who do you want to do it with?

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There's no magic pixie dust ... but there is a fairy god mother

There are certain factors that create a cost advantage
They don't last forever
But there is a recognizable pattern

It's essentially infrastructure, culture and the efficiency of money

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Ground Rules

- **Only outsource if ... 1) you are out of capacity, 2) there is labor arbitrage or 3) technology advances**
- **Locations matter**
- **Never Out-Source a broken or unknown process and expect it to get better**
- **Supervise / Measure the heck out of it - be present**

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The factors of cost - change

If you don't like where the BPO's are today Well, just wait a bit because it's all different tomorrow.

Country-advantage life-cycles are becoming increasingly shorter

Advantages are created and obliterated by orthogonal events

- **currency advantages in Argentina**
- **SW development in old "Soviet-States"**
- **Government policies create "incubators" in Israel**
- **Local economic control -- Monterey MX**

Watch out for the "rising middle-class" effect

There are "natural limits" to growth in all systems

Friendliness to "western laws"

The last MNC to town goobers it up for everybody

What "is" Low Cost -- Outsourcing?

Just because you out-source from a supplier in a LCR doesn't mean you're "localized" for Low Cost

- **Stacked western cost burden – yours/your suppliers**
- **Non-localized indirect burden**
- **Payments in western currencies**
- **NAR-based/focused reference design**

Start to think in terms of "indigenous" sourcing

What is LCR sourcing cont

LCR EMS, Integrators & OE/DMs can drive localization, however... **They are not created equally (company and location)**

- **Choose EMS/Integrators on Material Management prowess and culture for process control everything else will follow**
- **Other desirable sourcing factors...**
 - FTZ, ship/air access
 - >1 hr from major city
 - proximity to engineering university
 - locality is rooted in an “Agrarian” work ethic
 - density/proximity to “most likely” supply

Start to consider other factors as part of a “larger equation”

Assembly/Integration Effectiveness Benchmark

	Fully Loaded Wage/Hr	Attrition	Time to Productivity	Process Discipline
Brazil	\$4	3%/mo		
Mexico City	\$6-7	5%/mo		
Mexico (other)	\$5-6	2-5%/yr		
Thailand	\$2.5-3	2-4%/yr		
Shanghai	\$3	5%/mo		
Suzhou	\$1.8-2.5	2-3%/mo		
Tianjin	\$1.8-2.5	-		
Qingdao	\$1.8-2.5	-		

- **Other Critical skills in China: Engineering and SC resources are scarcer and less loyal (30-50% turnover), driven by MNC localization**

Full stream Analysis (system level example)

MOC & Transformation		Paid in Western		Paid in LCR			
		Currency	a	Currency	b		
{	Western Logo (Manufacturers in HCR)	25%		0%		$(a \times 0) + (b \times .1)$	= 0%
	Western Logo (Manufacturers in LCR)	50%	c	0%	d	$(c \times .7) + (d \times .8)$	= 35%
	LCR Logo	15%	e	10%	f	$(e \times .9) + (f \times 1)$	= 23%
						Total:	58%
MOC & Trans as a % of Revenue = 60%							
Manufactured Cost Index = $60\% \times 58\% =$						35	

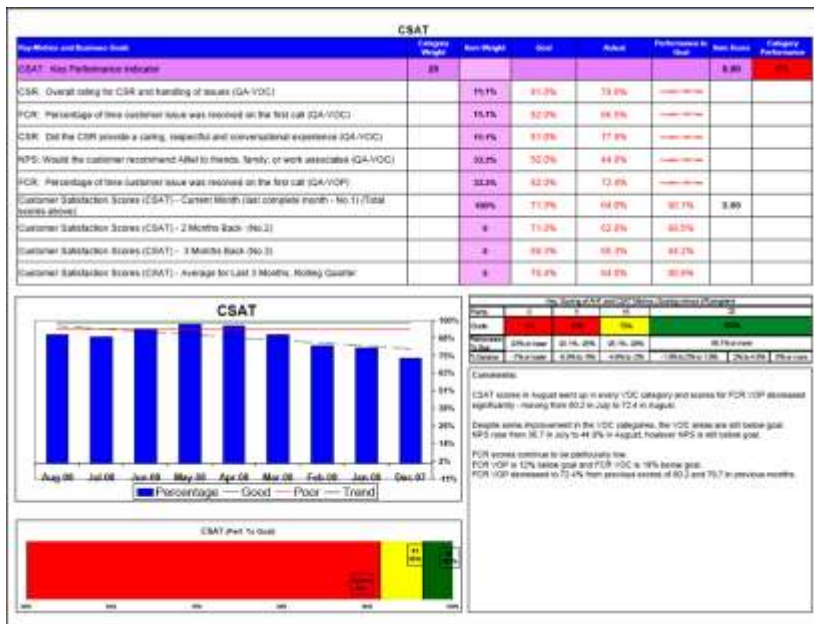
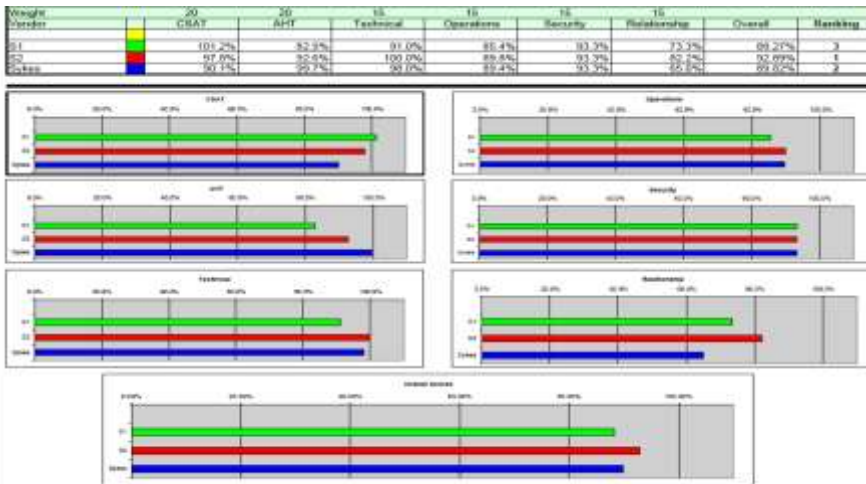
Business Structure		Paid in Western		Paid in LCR			
		Currency	a	Currency	b		
{	OCOGs	6%	90%	10%	b	$(a \times b)/100 =$.6
	SG&A	4%	50%	50%	d	$(c \times d)/100 =$	2.0
	R&D	12%	90%	10%	f	$(e \times f)/100 =$	1.2
	Distribution	3%	80%	20%	h	$(g \times h)/100 =$.6
Business Structure Index						4.4	

Localization Index: $35.0 + 4.4 = 39.4$

Weekly Operations Call – All Vendors

Q3 Review: CALL STATS									
M/F 9/7 - 9/13/08		Calls Handled	Transfer Rate	Short Calls	APR	Avg Talk Time	Avg Hold Time	Avg Wrap Time	
STATS		13918	37%	8	498	388	28	22	
TELEPERFORMANCE		25917	34%	21	388	384	25	8	
TATUS		18718	37%	28	388	384	28	25	
SEPTEMBER MID 9/1 - 9/13/08									
ALL VENDORS		Calls Handled	Transfer Rate	Short Calls	APR	Avg Talk Time	Avg Hold Time	Avg Wrap Time	
STATS		84338	38%	47	327	348	24	11	
TELEPERFORMANCE		127 25294	37.5%	50	12 307	350	22	18	
TATUS		127 48247	37.5%	23	211 388	388	28	7	
TATUS		127 18788	37.5%	8	12 378	327	21	37	
Q3 Review: Adherence									
Week Ending: 8/13/08			SEPTEMBER MID						
STATS			38%			32%			
TELEPERFORMANCE			unavailable			unavailable			
TATUS			38%			32%			
QUALITY									
W/L 8/27 - 9/3/08		Overall Score	MPG	% Issues Resolved On First Call	FCR Avg	Rep. Commitment Level Avg	WCS Avg	Rep. Composite Avg	# OF Surveys
Vendor Avg		62.7	45.3	61.2	61.8	74.3	61.4	69.3	177
Open		59.3	38.9	54.8	64.3	70.2	63.8	68.1	62
Teleperformance		71.7	49.4	70.2	64.2	70.9	63.6	67	27
Tatus		67.2	36.2	60.8	76.2	67.7	77.8	78.9	88
SEPTEMBER MID 9/1-9/13/08		Overall Score	MPG	% Issues Resolved On First Call	FCR Avg	Rep. Commitment Level Avg	WCS Avg	Rep. Composite Avg	# OF Surveys
All Center Avg		69.2	54.1	68.8	68	72.3	65.4	68.8	2042
Vendor Avg		64.8	41.6	62.4	60	73	70.8	60.8	229
Open		61.2	49.4	59.8	62.2	75.8	61.3	67.7	107
Teleperformance		68.2	48.7	68.3	64.3	73.8	60.1	60.7	127
Tatus		67.8	37.1	68	76.2	68	78.8	77.4	403

Comparison of Vendor Performance – 8/1/08-8/31/08



Key Metrics and Business Goals	Category Weight	Item Weight	Goal	Actual	Performance to Goal	Item Score	Category Performance	Performance Indicator
CSAT Key Performance Indicator	20						0%	0%
CSAT Overall rating for CSR and handling of issues (QA-VOC)		11.1%	61.0%	59.3%				
CSAT Percentage of time customer issue was resolved on the first call (QA-VOC)			62.0%	64.7%				
CSAT Did the CSR provide a caring, respectful and conversational experience (QA-VOC)			63.0%	77.9%				
CSAT Percentage of time customer issue was resolved on the first call (QA-VOC)			62.0%	77.4%				
Customer Satisfaction Scores (CSAT) - Current Month (not complete month, No 11) (Total score above)			71.0%	64.0%	90.3%	0.0%		
Customer Satisfaction Scores (CSAT) - 3 Months Back (No 11)			71.0%	61.3%	86.3%			
Customer Satisfaction Scores (CSAT) - Average for Last 3 Months, Rolling Quarter			70.4%	64.0%	90.9%			
AVT and Cost Key Performance Indicator (Weighted Average)	20					30.00	100.0%	
Average Handling Time (AVT) - Current Month		20	340	341	99.7%			
Average Handling Time (AVT) - 2 Months Back (No 2)			340	345	98.8%			
Average Handling Time (AVT) - 3 Months Back (No 1)			300	300	100.0%			
Average Handling Time (AVT) - Average for Last 3 Months, Rolling Quarter			343	339	101.4%			
Average Cost per Call - Rolling Quarter			\$ 1.6022	\$ 1.5804	100.0%			
Technical Support	15					15.70	98%	
Percentage of time system was online and able to successfully receive calls (OCA)		2	100%	100%	100%	2.00		
Updates: Were updates successfully installed by the required date with confirmation received within the expected timeframe? (Desktop)		3	5.0	5.00	100%	3.00		
Accessibility: Were vendor's technical resources immediately accessible for material outages or technical issues?		2	5.0	5.00	100%	2.00		
Accessibility: Were vendor's resources immediately accessible for material or telephone issues?		2	5.0	5.00	100%	2.00		
Survey Rating: Technical performance and ability of Partner to respond and resolve technical and telephony issues promptly.		3	5.0	4.50	100%	3.00		
Survey Rating: Partner is following the processes outlined in the operations handbook (i.e. contacting the helpdesk appropriately, submission of OCR's, etc?)		3	5.0	4.50	90%	2.70		
Operations/Project Support	15					13.41	89%	
Planning and execution to support forecasting, % of time Partner is staffed to handle forecast volume (Adherence)		3	94.0%	94.0%	100.0%	3.00		
Partner effectively executes and provides deliverables, reporting and metrics on time		2	100%	70.0%	70.0%	1.40		
Tracking number of billing accuracy issues (Inquiries, reporting, documentation) during rating period		2	0	0.0	100.0%	2.00		
Attention for monthly period (From day one of product training, defined as leaving company or leaving the account does not include internal account transfer or promotions.)		2	2.6	0.00%	100.0%	2.00		
Survey Rating: Partner communicates anticipated changes, project updates and actively participates in identifying and resolving issues.		2	5	4.40	88.0%	1.78		
Survey Rating: Effectiveness of account management, operations and training		2	5	3.60	68.0%	1.36		
Survey Rating: Partner is following the processes outlined in the operations handbook (i.e. contacting the helpdesk appropriately, submission of OCR's, etc?)		2	5	4.71	94.3%	1.59		
Security	10					14.00	100%	
Compliance with security standards and requirements (Audit or inspection)		10	10.0	0.0	0.0%	0.0		
Survey Rating: Partner using team security team		6	5.0	5.0	100.0%	6.0		
Relationship and aligned strategy						6.75	63%	
Survey: Partner is responsive to changing needs, shares solutions and is aligned with strategy.		6	5.0	2.67	53.3%	2.67		
Survey: Partner develops best to class processes and tools to be shared and implemented across the operation.		6	5.0	3.33	66.7%	3.33		
Survey: Size and quality of overall relationship with Partner		6	5.0	3.75	75.0%	3.75		
Aggregate Score						71.86	72%	

