KomBea

Call Centers:

The Deep and Still Largely Untapped Vein of Operational Profits

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Executive Summary

No matter how much you have already saved with customer self-service and outsourcing, there is an astonishing amount of operational profit remaining to be tapped from your call center operations. The key to extracting that value is to understand not only the sources of cost and revenue, but the specific sub-drivers of those sources. Every single driver of cost or lost revenue can be significantly reduced by supporting the call center agents with automation. The automation, controlled and directed by the live agent, ensures the call is 100% correct and as efficient as possible. In the way Just-in-Time reduces a host of interrelated manufacturing costs and improves quality, getting the call right with agent-assisted automation drives down costs and increases call center generated revenue.

I realize you are probably thinking: "How can they say we haven't tapped profits from our call centers? We have improved our Website, improved our IVR, and tapped our user community which, taken together, has drastically reduced the number of calls we get from customers. So now we don't need as many agents. Plus, our offshore outsourcing has cut our labor rate on the agents we do need. Really, how much value is left to extract?"

The sentiment above summarizes the strategy and results for many companies. Though it sounds cliché, it really is the tip of the iceberg—the visible, easy to get at, sources of cost. The lion's share of the value—both cost *and* revenue—is there for the taking for anyone willing to take a systematic approach. To whet your appetite, we estimate further cost reductions of 40% and increases in cross/up-sell and collections revenue of 3x are well within reach.

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And don't think that because you outsource call centers and collections that this doesn't apply to you. The collection agencies are collecting your money. Their lack of effectiveness leaves your money on the table. The outsourcer is charging a price per minute or a price per call. Into that price is built the same inefficiencies you had before you outsourced, in some cases, even more. The drivers of cost and revenue leaks and the remedies discussed here apply to outsourced calls as much as they do to calls handled internally.

The Sources of Untapped Value

Table 1 highlights the four categories where the value in call centers can be found. Three of the categories are cost buckets: Direct Labor (DL), Indirect Labor (IDL) and Capital Expense (CapEx). The fourth, ever present, "Other" category has both revenue and specific kinds of cost not covered by the first three categories.

Of these, Direct Labor is obviously the biggest driver of cost. Moreover, the amount of Direct Labor to some extent drives the amount of Indirect Labor (Trainers, Monitors, Coaches, SMEs, Human Resources) and directly drives Capital Expense (phones, computers, and software licenses for the agents, and ultimately, even real estate costs).

We will dig into DL momentarily. However, we have some tips in the form of questions finance people can ask to see if IDL and CapEx might be able to be reduced independently of Direct Labor reductions.

Indirect Labor

One large source of IDL in contact centers is Quality Monitoring (QM). It is generally regarded as a given that QM is important and necessary to ensure the agents are doing what they are supposed to be doing on calls. Quality Monitors are to call centers what inspectors used to be in Manufacturing. What Call Center leaders have failed to grasp is that Manufacturing got rid of its inspectors (monitors) decades ago because inspection is an expensive and completely ineffective way to improve quality. The fundamental issue that is often not addressed is the ROI for all those people off the phone listening to others on the phone.

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Questions for finance people to ask:

1. Are Compliance, Handle Time, Call Resolution, CSAT, etc scores continuously improving? (If there is no continuous improvement, where is the return on those [monitoring] resources?)

2. If the leaders are saying the measures are not improving because they need to do even *more* monitoring and off-phone coaching, ask them how much improvement in output measures would be needed to achieve a return on that increased investment?

3. Are there technologies available that would ensure the agents are doing what they are supposed to do so that we could actually reduce the amount of monitoring and coaching and still see output measures increase? (The agent-assisted automation solution we will be discussing is designed to address this.)

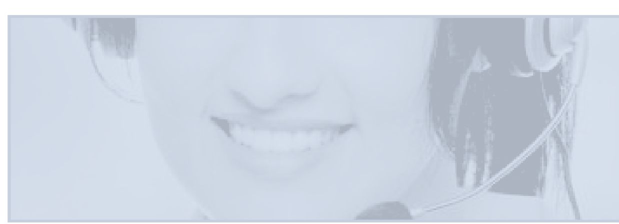

Table 1: Categories and Sub Drivers of Operational Profit

CATEGORY	SUB DRIVERS	EXPLANATION
Direct Labor (DL)		
	Call Volume	Higher volumes result in more DL. However, a big % of the volume is call backs due to unresolved issues, poor explanations, mistakes.
	Handle Time	Longer AHT means more direct labor.
	Shrink-age, includ-ing After Call Work	The more time the agents are off the phone the more DL is needed. Off the phone time includes after call work when the agent is finishing up system work and not talking to a customer.
	Agent Turnover	When turnover is high, more indirect labor is needed for hiring. Also, newer agents are slower and make more mistakes.
Indirect Labor (IDL)		People in call centers not answering the phone: Trainers, SMEs, Coaches, Quality Monitors, IT, HR.
Capital Expense		Hardware & Software Licenses for the center and for each agent seat
Other		
	Lost Revenue	1. Failure to up-sell and cross-sell 2. Collections: time to collect and amount collected
	Call Center Errors	Errors made by agents result in rework that sometimes shows up as costs outside the call center: reshipment, improper warranty processing, cus-tomer complaint departments.
	Fines/Legal Fees	Call centers often have to pay fines when calls are handled incorrectly due to a failure to recap or disclose key information. There are often legal fees associated with these errors as well, such as failure to do the proper disclosures on Collections calls.
	Charge-backs	Potential lost revenue and cost associated with fighting fraud committed by customers claiming they did not order/receive some good or service.

CapEx

One big Call Center CapEx line item is software licenses. Finance leaders and CapEx Commit-tees need to do a better job of holding Call Center leaders feet to the fire on the ROI for those investments.

First, insist that your call center leaders come to the table with documentation from a pilot that shows the improvement in the output measures and make sure that improvement justifies the investment. Then, once fully implemented, insist that the leadership come back with charts that show Handle Time or After Call Work or Repeat Call Volume was reduced by the amount promised in the pilot. If plotted on a run chart or control chart, the change in performance should be obvious. If that reduction is not there, ask them for specific plans on how the improved performance that made the case for the investment will be achieved.

In our view, Call Center leaders have been allowed to skate for too long with important output measures that show no measureable signs of improvement and with business cases for return on investment that fail to materialize when fully implemented.

Not Just Cost, but Real Revenue in the "Other" Category

Depending on the nature of your business, some of the drivers in this category may not be relevant, but it is worth reviewing them to get a complete picture of how breakdowns in call center process execution result in lost revenue and increased costs.

First, poor process capability (meaning agents don't handle a call the way they are supposed to every time) results in a significant amount of cross/up-sell revenue being left on the table. Despite the monitoring, the coaching, the incentive plans, etc, agents routinely fail to cross-sell. We have seen situations, where the agents only did the required cross-sells 25% of the time. In situations like these, without any effort to improve the sales process itself, just getting the offer rate near 100% will deliver significant top line benefits.

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Another form of revenue left on the table comes from debt collection processes—delays and failures to reach the right party, get to settlement talks, agree on a settlement number, etc. Improving the collections process can instantly help you collect more revenue. And again, please don't say, "I don't have to worry about that since we outsource collections," because your debt collector is leaving your money on the table too. (We will share how some debt collection companies have figured out how to dramatically improve their collectors' processes and collect significantly more revenue faster than other agencies in the Results section below.)

In addition to revenue, there are other costs in this category—costs that sometimes show-up outside the call center.

There are numerous small examples, like items returned because an address was entered incorrectly, but a huge source of unnecessary cost can come in the form of warranty processing or customer return errors. A large percentage of the returns processed—easily 10–15%—have some kind of error associated with the return. The agents don't check the warranty and/or they authorize returns even though the warranty has expired, or they have returns sent to the wrong location, or the customers are never given key information (e.g., remove your software from the gaming console because it will not be returned to you), which results in complaints to Customer Service or the CEO. This is pure non-value added, "hidden factory" cost and can be easily reduced if the agents do the right thing, every time.

Additional costs can come in the form of fines paid to either the government or to clients (especially true for outsourcers) and the concomitant legal fees for failure to follow the proper process on the call. For example, disclosures (e.g., consumer protection statements) not being read to customers can lead to fines and/or legal fees (companies get sued for failure to read mini-Miranda rights during collections calls). Further, failure to properly recap calls can lead to outsourcers paying fines and having to cover customer change fees.

Finally, a source of both cost and lost revenue, is fraudulent chargeback processing. Chargebacks come from customers who ordered and received something but then call their credit card company and claim they never ordered the item. Make no mistake, this is not an error made by the agent; this is fraud. But anything the center can do to reduce the possibility of fraud will decrease lost revenue and the costs associated with responding to fraudulent chargebacks.

So, to conclude this section, now we know where the bulk of the opportunity is hiding. It is tied up in Direct Labor and in other one-off items where poor call center process capability is resulting in revenue leaks, fines, and costs accruing in other parts of the business.

Drivers of (Excessive) Direct Labor

By looking at what drives the amount of direct labor a center is carrying, we can find ways to systematically reduce direct labor expense and, as mentioned, IDL and CapEx, which are correlated with DL expense.

The first driver of direct labor we want to target is call volume. Simple math, if call volume goes up you need more agents to handle it if you want to maintain your service levels (% Answered in < 30 secs). Reduction in call volume is why the self-service options that companies have been implementing have reduced costs.

But another step is possible here. A significant percentage of call center volume is call backs from customers because an issue wasn't resolved correctly the first time or calls due to something not being explained correctly. We have had clients where an additional 10–20% of their call volume was preventable with relatively simple changes to how the agents were handling calls.

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A second driver of DL is handle time. The longer the average handle time, the more agents you need to handle a given amount of volume. As important as this driver is, with some minor exceptions, call centers have made very little progress in systematically reducing handle time in their centers. The only levers most choose to exercise are experience, training, and coaching and this has proved remarkably ineffective at decreasing handle time, especially given the high turnover in call centers.

A third driver of DL is shrinkage—agents off the phone for any reason. The more the agents are off the phone the more agents you need to make up for that lost time. Agents get off the phone for breaks, lunches, meetings, training, 1–1 coaching, and after-call work (ACW).

Now we are not recommending turning your call center into a sweatshop by reducing or eliminating breaks and lunches. But what if you could reduce the need for training, meetings, and 1–1 coaching and not affect performance? What if you could reduce ACW to near zero and still accomplish the work the agents were doing in ACW? We have seen ACW amount to 15% of average handle time. Reducing ACW, training time and off-phone coaching time reduces the amount of direct labor you need to meet your service levels.

The final driver is turnover. The current difficult employment period notwithstanding, Call Center turnover is generally very high—in many centers it was 100% or more, *annually,* prior to the recession. When turnover is high, a higher percentage of inexperienced agents are on the phone. This drives up the amount of DL because inexperienced agents 1) have longer handle times, 2) make more mistakes (contribute to "hidden factories"), and 3) are off the phones more for 1–1 coaching (more shrinkage). Turnover also drives up Indirect Labor in the form of HR people, coaches, and trainers needed to terminate old agents, onboard new ones, and get them up-to-speed.

The Call Center Paradigm Change that Drives Value Capture: Agent-assisted Automation

Manufacturing leaders have known something for decades that call centers still don't get: automation is the key to increasing worker quality and productivity.

Call Center leaders tend to have an either/or orientation towards automation. Either the entire call is automated (handled in the IVR) or it is 100% handled by a live agent. However, the truth in manufacturing and in call centers is if you have to have something done a certain way every time, or if you have to improve the processing speed, or safety/security are of the essence, then supporting the workers with automation is the only way to achieve these objectives. The reason is Call Center outputs are completely dependent on the performance of the agents and unaided human performance can never produce error-free quality.

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There are many explanations as to why agents make so many errors: they weren't trained, they forgot, it is too hard to do, they were tired or distracted, they think they know better, they choose not to do it, etc.

Now, we could spend a lot of time and money chasing after and trying to seal off each of the paths that leads to humans not doing what they are supposed to do. Or, we could leverage simple automation which will literally guarantee the process is performed correctly. It should be obvious which would be more effective and efficient.

KomBea's Agent-assisted automation is currently the only solution on the market that leverages pre-programmed system actions *and* pre-recorded audio, *directed by the agent,* to make sure the process is correct. The agent drives the process. If the customer has unique questions the agent uses his/her live voice to address the customer's needs. If not, the agent uses the pre-programmed paths to respond to the customer's request.

It's that simple. You build the optimal path and you make it easy for the agents to follow it. This alone will increase the likelihood that the process is done correctly. With some routine CRM integration work, you can actually *error-proof* the process. With error-proofing, it is impossible for the agent to skip key steps.

For example, you can make it impossible for the agent to process an order or a customer request unless the cross-sells, warranty checks, disclosures, credit card checks, mini-Miranda rights are properly executed. Once the software controlling the automation indicates to the CRM that the steps are accomplished, the order can be submitted.

Table 2 details multiple ways agent-assisted automation can be used and the value that can be captured as a result of those improvements.

Table 2: Uses of KomBea's Agent-assisted Automation and the New Value Captured

USE AUTOMATION TO...	DESCRIPTION	NEW VALUE CAPTURED
Process Credit Cards	The customer enters their CC number on their phone keypad. The information goes directly to the payment gateway. The agent never sees or hears the number and the CC information is not stored in your data center. Before processing the credit card, you recap the charge and get the customer to approve the charge and capture their digital signature.	• No risk of CC theft • PCI Scope is reduced and PCI Compliance is increased • Fraudulent chargebacks are easily defended because you never had the customer's information and you have a record of them approving the charge.
Error-proof Live Agent Call Handling	You build the ideal call path and error-proof the process so the agent has to do it correctly.	• Reduction in "hidden factory" costs due to call center mistakes • Reduction in Direct Labor due to reduced call volume because the issues are resolved correctly or headed off.

Table 2 continued

Speed up Live Agent Call Handling	The optimal path you build is faster. You have taken out unnecessary steps and streamlined what is said to the customer.	• Shorter calls reduce the need for DL.
Reduce After Call Work	Your pre-programmed system actions allow you to do work in parallel during the call which reduces After Call Work.	• Less shrinkage allows you to lower DL and maintain service levels.
Build Business Intelligence into the Call	The software is ensuring the call is done correctly. Agents don't need as much training. Less monitoring and coaching are needed because huge swaths of the call are done correctly every time.	• Less training time • Less shrinkage (off phone coaching) • Less need for Indirect Labor (trainers, monitors)
Collect More Delinquent Accounts Receivable Revenue Faster with Full Compliance	Many parts of collections calls are completely standard and perfect for pre-programmed system actions and pre-recorded audio.	• Automation results in more calls per day per agent which means more revenue collected faster. • Pre-recorded audio insures perfect compliance and reduces fines and legal fees.
Make agents lives less tiring and stressful	The software gets all the details, which create stress for agents to remember, right every time. The prerecorded audio allows the agents to rest their voice.	• Better work environment • Less turnover • Experienced agents not burning out and quitting improves call center metrics • Less IDL to terminate and add new agents

Real World Results

The value capture theory was outlined in Table 2. Going back through untapped profit vein drivers we discussed at the beginning, here are some challenges your centers (in/outsourced) might be having and how KomBea's agent-assisted automation might help:

1. Do you have money tied up in call centers doing warranty processing? Are customers returning merchandise authorized by the call center that is out of warranty?

Using automation to check the warranty and communicate to the customer that the unit is out of warranty, we helped a high tech company go from a 15% error rate on warranty processing to zero.

2. Are Average Handle Time and After Call Work too long and showing no signs of improving?

On cell phone activation calls for a Telco client, we used agent-assisted automation (pre-programmed system actions and *pre-recorded audio files) to build out a call flow for the agents to use. The automation reduced AHT by 30% (approximately 9 mins to 6 mins) and eliminated ACW which had been averaging 90 secs (about 15% of AHT; See Figure 1).*

3. Are you not collecting as much delinquent Accounts Receivable as you would like? Do you have high fines and legal fees due to collectors' process adherence failures?

In our first implementation of agent-assisted automation in a Collections call center, we increased calls per agent by 23%, increased revenue collected by 10% and reduced legal fees and fines by 50%. We were still in the first inning of that game as this white paper was published. We are confident we have a lot of room for improvement.

4. Are your cross/up-sell rates low?

For a Telco provider, agent-assisted automation increased cross-sell revenue 5X, just by making the offer every time.

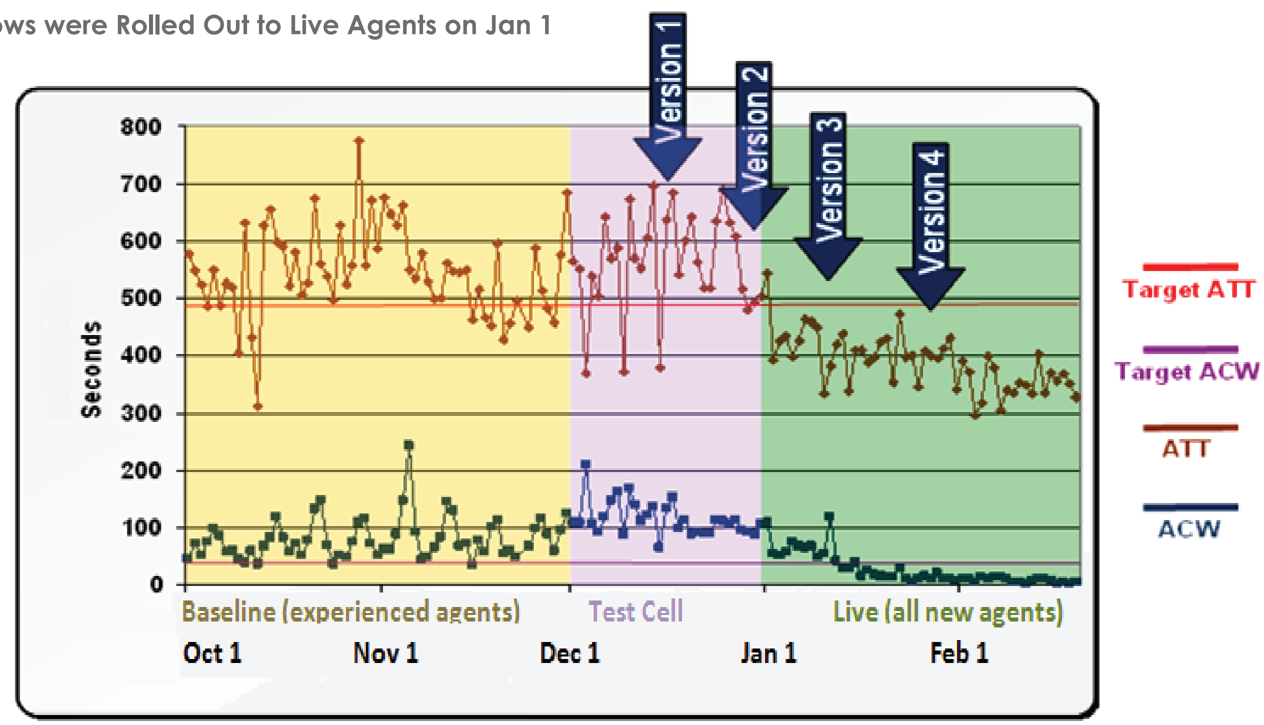
5. Are your shrinkage rates high and not improving?

A financial services client fully recovered their investment our agent-assisted automation software just through the savings in agent training time. The myriad other improvements our software generated were pure upside.

6. Fraudulent Chargebacks reducing call center revenue a couple percentage points?

When the agent uses automation to process the transaction and never sees or hears the number, fraudulent chargeback claims can be won every time.

Figure 1: Showing a 30% Reduction in AHT and the Elimination of ACW after Automated Call Flows were Rolled Out to Live Agents on Jan 1



If you think this is just a shareholder play and the other stakeholders—the agents and the customers—are being hung out to dry, you are mistaken. Agents love this solution. They get to rest their voices; they don't have to be as worried that they will make a mistake; they get to concentrate on really listening to the customer as opposed to focusing on trying to remember the dozens of things they are supposed to do. Employee satisfaction scores rise dramatically with agent-assisted automation deployments.

On the customer side, every study of customer satisfaction shows that the customers are completely accepting of automation. First, they never see or hear the pre-programmed system actions, so no problem there. As for the pre-recorded audio, few customers even comment and no one complains or asks that the agent not use it. Finally, in head-to-head tests, the customer satisfaction scores are the same for agents using the software and agents handling the call entirely with their live voice.

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Conclusion

To be sure, organizations have taken costs out of their call center operations with increases in self-service and labor arbitrage.

But whether you have 300 or 3,000 or 30,000 call center agents, the hard work of understanding exactly what the agents are doing on every call and leveraging automation to systematically improve their work—just the way they do in manufacturing—has not been done. Because this work has not been done and because the key performance measures are not continuously improving, the value of the untapped profits associated with Call Centers is staggering.

Deep profit seams can sometimes run through areas previously considered mined out.

In this difficult economic environment, where companies are turning over every stone to find revenue and profit growth, this white paper should serve as a reminder that deep profit seams can sometimes run through areas previously considered mined out.