

Maximizing Value

As the global economy recovers and the next era of economic growth begins, results – not efforts – are expected in the corporate boardroom. Conservative consumer spending and tight competitive markets in most industries have reduced the margin for operational error to the thinnest point in recent business history. Performance expectations are changing the way that outsourcing vendors are evaluated, selected, and engaged - and perhaps the most significant change is emerging in the area of outcome-driven contracting.

Outcome-driven contracting turns the traditional outsourcing model on its head: instead of buying service by the time slice or the transaction, clients buy service by the organizational outcome.

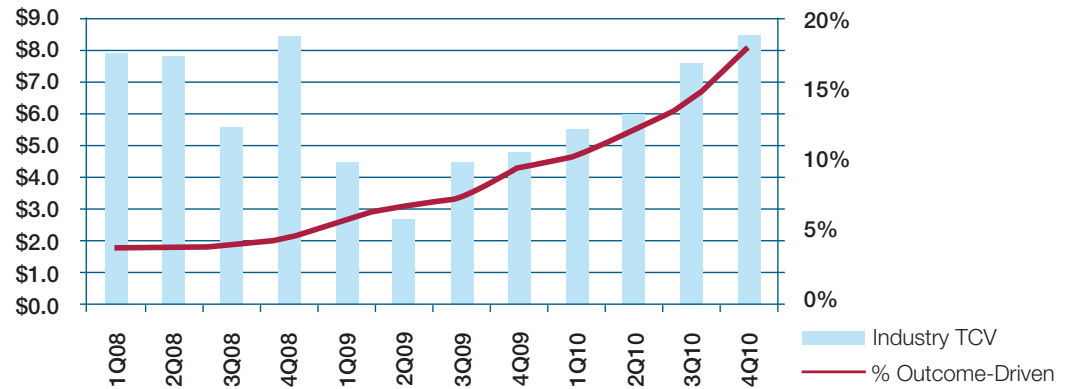
- Medicare Part C is the original outcome-driven outsourcing contract: private physicians are provided a capitated fee to manage a patient to a specific positive outcome, as opposed to being paid on a fee-for-service basis.

Increasingly, more and more leading organizations are turning to outcome-driven contracting to accomplish the same general mission: aligning the goals of the outsourcing provider with the goals of the contracting organization. Enabled by new real-time analytics and data mining capabilities, leading-edge outsourcing firms are able to provide new, innovative options in outcome-driven contracting – and judging from recent industry analyst comments, there is a groundswell of support from the client side for such options.

Intellect, a U.K.-based outsourcing association, recently held a panel discussion to discuss the future of the business process outsourcing (BPO) industry. At the event, the invited panelists all agreed that “...the time is ripe for a shift in thinking from the traditional to the innovative; from output to outcome...customers are increasingly becoming aware of the fact that they are not getting what they really want. Clients need to become ‘smarter customers’ in terms of understanding what benefits and transformation outsourcing can deliver. Related to this is the need for both sides to understand the behavior and expectations of each other.”

Globalization investment gurus, Tholons agree, noting in a recent report that “...the contours of outsourcing contracts are also steadily shifting towards outcome-based pricing from traditional effort-based pricing models. As more large deals are struck, the inherent revenue risk of such outsourcing contracts will act as a catalyst for using more outcome or result-based pricing.” Tholons expects the volume of outcome-driven contracting in the BPO sector to double – or more – in the next twenty-four months.

BPO Contract Awards IQ08-4Q10



Data plotted against the percentage of new contracts made in outcome-driven form. TCV values represent BPO contract awards in excess of \$25 million. Outcome-driven contracting makes up nearly one-fifth of all BPO engagements by the end of 2010. Source: William Blair, Tholons, TPI, Aristeia

The degree to which different BPO providers are aggressively moving toward an outcome-based engagement model – or delaying it as long as possible – speaks to the confidence they have in their ability to effect meaningful change for their clients at the level of the organization’s strategic goals. Outcome-based outsourcing requires new thinking from both clients and outsourcing providers. It requires a fundamental ‘reset’ of roles, responsibilities, and expectations for both parties. However, designed and deployed correctly, outcome-driven contracting is more than just a novel variation on traditional BPO engagement design. It is, in fact, the future of the outsourcing industry.

Outcome-Driven Contracting

Contracting for outsourced customer care by the interaction or by the minute ignores both the greater performance potential of a skilled outsourcing partner and the contracting organization’s own progress toward its larger goals. By contrast, contracting for outcomes:

- Puts more operational risk with the provider
- Buys direct progress toward organizational goals
- Aligns the interests of the contracting company and the provider
- ‘Zeroes’ the operating delta between performance and progress
- Provides additional flexibility in engagement design

[Let’s examine each of those in turn.](#)

Outcome-driven contracting puts more operational risk with the provider. Buying minutes or interactions pools operating risk on the client side of the equation. If customer satisfaction increases or decreases, if ARPU improves or declines, if churn rises or falls – the transactional contract often doesn’t have these scenarios contained within the scope of work, by design. The best operators in the BPO service sector want more risk, because they are confident in their ability to deliver outcomes; the risk they assume is canceled out by decades of experience in

building solutions to meet client goals.

Outcome-driven contracting buys direct progress toward organizational goals. It opened this paper, and it bears repeating: we are entering an era in which business results, not best efforts, are expected at every level of the organization. Buying results instead of proxy units, like minutes and interactions, is an increasingly popular option among leading organizations looking to secure their place at the table in the next phase of the global economy. The volume of results-focused outsourcing deals has increased in the past year as Fortune 1000 organizations have reconfigured their outsourcing philosophies to focus on partnering to achieve specific long-term goals - not just moving work from one environment to another for short-term cost savings.

Outcome-driven contracting aligns the interests of the contracting company and the provider. Minutes are minutes; outcomes are outcomes. Buying minutes from an outsourcing provider incentivizes that provider to maximize the economic value of those minutes for itself. That's not necessarily aligned with the interests of the contracting company. Buying outcomes incentivizes the provider to cost-efficiently deliver results – the same goal the contracting company has. By synchronizing the goals and directives of both parties, the net result is a more efficient outsourcing engagement.

Outcome-driven contracting 'zeroes' the operating delta between performance and progress. It's possible in metric-driven contracts to perform to the letter of the contract and accomplish virtually nothing in terms of long-term client-side organizational goals. Interactions can be handled efficiently without being handled effectively; issues can be resolved quickly without resolving them correctly. By 'zeroing' the delta between performing to the contract specification and achieving progress toward the contracting company's objective, outcome-driven contracting makes all contract performance a net positive for the client.

Outcome-driven contracting provides additional flexibility in engagement design. Minute-based contracts and transaction-based contracts do not allow for a great deal of creativity in building an outsourcing engagement: deliverables are priced as piecework, perhaps with accelerators in place for performing under budget or returning promised cost savings faster. However, with an organizational outcome as the target deliverable, contracting companies and outsourcing providers can work together to build a flexible engagement that rewards everyone involved in achieving the goal.

Proxy Metrics vs. Direct Analytics

Accurate measurement of progress toward the goals of the contracting organization is a key foundational element in moving toward outcome-driven contracting. For companies considering outsourcing a function like customer care, the end goals – satisfying customers with exceptional service while strengthening the customer relationship and increasing account value over time – have remained the same for decades. However, prior to the era of real-time interaction analytics and lightning-fast data mining applications, large organizations had to select other metrics to serve as yardsticks for the quality and efficiency of customer interaction management.

The sources of data easiest to access for organizations have been the telecommunications switch reporting and the agent disposition database - and, not surprisingly, these datasets

became the basis for a long-standing analytical toolset in the customer management industry. However, a switch can only report on the envelope of a call – when it originated, how long the call was in a wait queue, which agent handled it, and how long the interaction lasted. Meanwhile, agent disposition data has traditionally only provided the basics of the interaction from the agent's perspective – the customer's issue, whether it was resolved or transferred, and so on.

These metrics have served admirably well as proxies for customer interaction quality for over twenty years. The problem with proxy metrics, however, is that they're just that – proxies. They stand in for a true organizational goal, instead of directly measuring progress toward that goal. Some do an acceptable job; some are inaccurate but better than nothing; many have simply been made obsolete with the advent of better measurement and analytics tools over the course of the past decade.

In the customer experience management sector, simple switch metrics like average handle time (AHT) have become popular service level agreement (SLA) components for a reason: they're easy to measure and easy to improve. Small changes in interaction scripting and agent performance management can make a visible difference in AHT in just a few days. But while a reduction in AHT certainly indicates that interactions are being handled more efficiently, it does not necessarily mean that they are being handled more effectively. In the limited time that your organization has to affect positive change to every customer relationship, measuring how little time is spent with customers is only a very small – and very tactically-oriented – component in the overall value equation.

Even 'evolved' metrics like first-call resolution (FCR) measure agent behaviors that are not necessarily in line with the true organizational goal in the area of customer satisfaction. Not every customer issue can be resolved in a single interaction, and not every customer wants to spend an unlimited amount of time in a customer service phone tree to get an issue resolved; many would rather alert the company to a billing problem or service issue, receive an acknowledgment that the issue is being addressed, and be on their way.

Other proxy metrics are still valuable, but largely from the downside-measurement perspective. Service level for answer time and average speed of answer (ASA) are good performance metrics to monitor, but being able to answer the telephone promptly has become 'table stakes' for Fortune 1000 companies. As a result, there is more corrective action happening in these metric areas than measurement as a means of evaluating progress toward a key corporate performance indicator.

Proxy metrics do have their place. They're important to gather and monitor in the process of ensuring that customer interactions are handled promptly, thoroughly, and cost-efficiently. But, they are increasingly being superseded in the customer interaction management industry by a new, analytics-driven approach to performance management that also brings progress toward organizational goals into the picture. When you are examining your provider options for moving to outcome-driven contracting, it is critical to assess each provider's ability to measure its work progress toward a goal – not just a switch metric. Without more advanced analytics capabilities, BPO providers are simply unable to offer an outcome-driven contracting option.

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Getting Started with Outcome-Driven Contracting

Moving from a traditional unit-based outsourcing contract to an outcome-driven engagement is not a turnkey choice, but by taking a step back and reconsidering your goals and the capabilities of your outsourcing partner, it is possible to make the change seamless from the perspective of your customers and employees. As you develop a working plan to migrate work onto an outcome-driven engagement platform, keep the following points in mind.

Identify a contained process that an outsourcing partner can own. Outcome-driven contracting only works if your outsourcing partner can take full responsibility for the outcome in a defined business task area. Your outcome-focused BPO partner is taking on more operating risk in addressing an organizational goal rather than selling service by the unit. Position yourself – and your BPO partner – for success by allowing your provider to manage a larger portion of the work. Start by mapping your front- and back-office workflow (a good BPO partner can help in this) and look for operational areas where your partner can take full ownership of a task, from start to finish.

Define the outcome, the baseline, the desired improvement, and the operating timeline. A good candidate for an outcome-driven contract will have all four of these components. It's important to quantify what is desired under an outcome-driven contract; the current performance level of that outcome; the desired improvement; and the timeline on which that improvement is expected. Make sure the outcome defined in this stage is something your outsourcing partner can control within the boundaries of the task area assigned. If there are factors contributing to an outcome that lie outside the task area, be sure to install contract flexibility in managing those factors.

Install more frequent checkpoints and review windows. Transactional outsourcing engagements tend to be more set-and-forget contracts; outcome-driven contracting requires more frequent progress checkpoints, review windows, and information-sharing sessions. Once you're engaged in an outcome-driven engagement, your outsourcing partner is working side by side with you to achieve a goal. It's important to treat your BPO engagement manager as your coworker in that respect.

Choose a partner with a proven track record of delivering on outcome commitments.

Not every BPO provider is ready to deliver an outcome-driven solution. Most outsourcing organizations continue to focus on building service platforms optimized for unit-based or transaction-based delivery. When considering your choices in the BPO sector, look for organizations that have demonstrated successes in delivering on outcome-driven contracts.

With nearly three decades of experience in designing and delivering exceptional outsourced business process solutions for Fortune 1000 companies, TeleTech is the first choice of leading organizations seeking a proven provider for an outcome-driven contract engagement. Around the world, and across a wide spectrum of industries, TeleTech has the proven workflow management infrastructure, experienced service delivery professionals, and technology toolkit to provide clients with real, measurable progress toward organizational goals.