

# Outsourcing the Customer Relationship

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“It’s not just the jobs going out the front door, it’s the customer relationship going out the back door.”

*Paul Anderson, Futurist, 1 to 1 magazine, January/February, 2004*

“Banks increased their advertising spending by a whopping 30% in 2003”

*American Banker March 10, 2004*

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It is no secret the Internet has spurred outsourcing by hastening the ability to send work half way around the world and back in record time at breathtakingly low costs. And there is no question that sourcing certain functions offshore is hugely beneficial to the U.S. and the world economy. It started with software development but has now gained momentum in lower paying jobs such as call center support but also in higher paying jobs such as preparation of tax returns and three dimensional analysis of brain scans. The common advantage for these offshore labor havens can be summarized in one word: cheaper.

This trend is not new. We have been in a race for some time to lower the cost of everything. Low inflation and improved productivity are macro clear signs that these changes have accomplished their goal. ‘Walmart’ becomes a verb – use of scale and efficiency to enable ‘cheap’ to triumph over small, local, personal, and less cheap. Outsourcing is simply the logical next step of the process – let each part of this country and in fact each country around the world perform the work for which they are best suited. Focusing on producing a product or service at the lowest possible price will sustain the race – to the other side of the globe.

Just a thought: Has there been a single strategic change in the past decade that has served to strengthen the customer relationship – to strengthen the quality of the relating or the association between buyer and seller as reflected by customer loyalty? Larger/merged corporations, leaner down-sized staffs, more customer interactions directed to call centers, greater reliance on information technology – virtually all of these changes were designed to lower cost and improve efficiency of products and services.

But there is another way to improve your efficiency: put your costs in the right places. If products and services have become increasingly commoditized, then the differentiator may be the customer relationship. Where I buy becomes a function of how I am treated. Efficiency becomes a function of customer management, not production costs.

There is evidence of such a shift. Small banks taking deposit market share from large banks, as customers vote for ‘small, local’ over ‘large, distant’. Commerce Bank appears currently to be the most popular example of David whipping Goliath, not because they have a lower cost structure, but because they have a more efficient structure for growing revenue.

Discount clubs: Costco is outpacing Sam’s Club in average store sales and average purchase per customer in a very price-conscious segment because it appears to have become very efficient by, among other things, spending more on employee salaries and providing a more segment-focused, better customer experience.

Starbucks, which grew same store sales in November and December of 2003 by 11%, says, “We aren’t in the coffee business, serving people. We are in the people business serving coffee.” And backs it up by providing health-care benefits and stock options to employees who work over 20 hours per week, while shunning TV advertising. The common thread in each example is investing in certain areas that even though they elevate the cost structure they actually deliver greater efficiency because they lower the cost of getting, keeping and growing customers.

If customer management is a key to efficiency, what will be the hidden cost of outsourcing customer-facing tasks? So long as we only focus on production metrics to compare the average hourly cost per worker, cost per customer interaction, or number of transactions per hour, we may miss the hidden cost to customer relationships.

There is already evidence of a pending problem. “Numerous news articles have cited Dell’s plans to scale back its Bangalore, India call center that handles U.S. consumer inquiries... AP/CNN reported that some U.S. customers complained about the thick accents and scripted responses of the Indian agents.” (1 to1 magazine)

Most of us have now had experience in dealing with an offshore worker where language, culture and proximity have created a barrier to resolution and ‘relationship’. Branding companies and products will not be made easier by these types of customer experiences.

As organizations deal with the very real pressures to remain competitive, outsourcing those things that can be done cheaper, quicker, better will be absolutely necessary. There is no doubt that customers love ‘cheap.’ However in the on-going evaluation process to determine what is insourced and what is outsourced, it is crucial to consider how outsourcing will impact the quality of the customer relationship – which tasks will be neutral or even positive to the customer and which ones will place a new or greater burden on the customer. If customers wind up going out the back door, it will take more than a 30% increase in the marketing budget to reclaim them – and it will not make for an efficient enterprise.