

# Classification of outsourcing



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Outsourcing can be classified as moving all or part of an organization's activity to a third party business. The activity could be in the form of producing a good or the performance of a service. In some type of industries, outsourcing may well be the only feasible business model, either for all businesses or for a subgroup of businesses. The general example is newspapers outsourcing their news gathering service (especially, collecting information in other countries) to Third party service providers such as Reuters and the Associated Press. (Varadarajan, R. 2009) Outsourcing is one of the measures a company takes to cut costs by moving their jobs to an outside vendor on an ongoing basis. The organisation was providing these services internally before outsourcing them to the third party vendor. A company that effectively engages in cost cutting would be in a better position in the market. Companies with low cost leadership are able to gain the potential market share. (Oza, A., and K. Hill. 2007)

Outsourcing is a trend that will carry on over a period time. Cost reduction cannot be the only motivation for outsourcing since cost reductions is only possible in specific conditions, e. g. the third party provider is be able to achieve economies of scale that the outsourcer does not. Business do not simply indulge in the process of outsourcing to perform the same task at lower cost, as this could be achieved through reorganising internal activities. (Quélin, B. & Duhamel, F. 2003)

Businesses have hired vendors for particular jobs or to level off peaks and troughs in their workloads for years. In the recent years outsourcing has been employed with great success by companies such as General Electric and Procter & Gamble. Even though in general most companies would

indulge in outsourcing to either cut costs or reduce the head count, today the drivers are more strategic and it focuses on keeping value-added activities in house where an organization can better utilize its own core competencies. Many companies are discovering that outsourcing is about corporate growth, making better use of skilled staff and even job creation, not just cheap wages abroad. (Brent, P. 2009)

Based on the above arguments there are two types criteria that a company would bear in mind before making any decisions on outsourcing. The first is known as tactical outsourcing wherein the decision is often taken based on cost with no consideration to other benefits or risks associated with that decision. The second is strategic outsourcing where other aspects are taken into consideration. These include quality improvements and unavailability of resources. (Espino-Rodríguez, T. F. & Padrón-Robaina, V. 2004). There are also some possible disadvantages of outsourcing if not done correctly.

Outsourcing has to be done for the right reasons as mentioned above. The company has to carefully assess the possible benefits which could be in the form of cost reduction or increased customer satisfaction before making any decisions on outsourcing. Some of the other possible disadvantages could be losing staffs that have been trained in the process that may be outsourced or failure to meet the desired criterion as agreed by the third party vendor. (Jones 1997)

It is true that there some disadvantages associated with the process of outsourcing but a carefully crafted rational decision based on logical thoughts would help companies to get the extra bit of competitive advantage through lower cost disciplines, at the same time improving their quality of

service and product delivery capability (Domberger, 1998). Globalization is the key word and today companies compete in the global market and not in regional or national market. The new developments in information and technology means that production processes could be separated in and place. Also customers have a wide range of products to choose from and this in turn would reduce customer loyalty. All this adds to complexity and one response to above changing needs is outsourcing. (Pedersen, H. S. & Jenster, P. V. 2000).

Outsourcing was first observed in the manufacturing industry, and China was the front runner in terms of attracting jobs and foreign investment. In this phase of outsourcing, it was noticed that organisation in order to take the advantage of cheap labour would set up its manufacturing plant in the Far East or Mexico. As outsourcing become more widespread, more and more functions were capable of being outsourced. The biggest upsurge in outsourcing was observed when service activities were outsourced. What began as a process for cutting costs has evolved into a means of growing a company's business value. Transferring non-core company processes off to experts not only helps in delivering increased efficiencies, it delivers the potential for enhanced performance. The important thing is to combine the right people, processes, and technologies to gain maximum efficiency and achieve competitive advantage. (Oza, A., and K. Hill. 2007)

International Data Corporation (IDC) has done some analysis of the top outsourcing deals in the current years and the data reveals contract expenditures of almost U. S. \$56 billion. The scale of outsourcing has reached astonishing proportions, as seen in the case of Fiat's U. S. \$7 billion

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deal and NTL's U. S. \$2 billion deal with IBM's Global Services. (Kakabadse, A. & Kakabadse, N. 2005)

Outsourcing worldwide has now topped US \$ 1 trillion per annum. (Oza, A., and K. Hill. 2007)

In the service industry, outsourcing was initially restricted to basic support activities but recently outsourcing has entered all non-core service functions. In 1997, 34% of enterprises. Outsourced all or part of their information technology (IT) and this proportion is expected to increase to 58 % by the year 2010. Similar increases are expected for activities such as telecommunication, accounting and human resources. (Oza, A., and K. Hill. 2007)

Outsourcing has evolved in the past few years and a new industry called Business Process Outsourcing (BPO) has come to age. It is expected to be “the next big wave” in information technology services. Business process outsourcing is a more specialised form of outsourcing in which an entire business process, such as accounting, procurement or human resources, is handed to a third party vendor (RAMMOHAN RAO. 2004). According to Gartner Group, which is one of the top IT consulting firms, a BPO can be defined as delegating one or more business processes to an third party provider which in turn owns, facilitates and manages the particular process based on a clear and measurable performance criteria. As per a study done by International data corporation the BPO market is expected to reach

**1 . 2 trillion in the coming years.**

In terms of market share the United States leads the BPO market followed by Europe and the Asia pacific region. (Yang et al 2007).

Call centres constitute the biggest part of this BPO market. (RAMMOHAN RAO. 2004) “ Call centres are defined by Richardson and Gillespie (2003, pp. 88-89) as having three distinct characteristics:

1. workers are employed in specialist activities which put together telecommunications and information systems technologies;
2. Their work is administered by automated technology which virtually simultaneously distributes work, manages the speed of that work and monitors their performance; and
3. Workers are directly interacting with the customer either through in-bound calls, making out-bound calls or a combination of the two.”

The National Association of Call Centres, a non-profit organization serving the call centre industry, categories different sectors in the call centre industry. These are:

1. financial services/banking/insurance;
2. telecommunications;
3. medical services
4. government
5. directory services/job placement (Jobs et al. 2007)

According to industry estimates, there were over 300, 000 call centres worldwide at the end of 2002, employing around 18m people. (RAMMOHAN RAO. 2004)

Call centres can in the form of contact centres which are part of the company (“ inhouse” call centres) or Third party call centres (“ service bureaux”) which interacts with customers on behalf of several companies. Basically, with the help of call centres companies try to provide an extended form of customer service, and try to ensure their clients’ satisfaction and commitment (Zapf et al 2003).

Employees in call centres are not just taking out-bound and in-bound calls, but they would also interact with customers through e-mails and online chat as well.

With the advent of technology customers are increasingly using email to correspond and there are incentives to do so since there is no charge for postage and emails can be easily stored. The advancement in IT systems enables a customer service agent to interact with customers through voice and email and service both at the same time. Online chat is a real time text conversation between agent the customer. E-mail and chat service may be used by clients who cannot use a traditional telephone due to disability. (Irish 2000)

### **Outsourcing in financial service industry**

#### **Financial Services Industry at the Forefront**

The financial industry is not new to idea of outsourcing, and its use, prompted by need to lower cost and the need to focus on core business area,

is increasing sharply. As per a report, 15% of the financial services sector in the US, which is approximately about \$356bn, would be outsourced in the next few years. The growth in this sector would help in reducing cost for certain services provided by the financial institution and at the same time would help in increasing efficiency. (Singh, D. 2005). A study conducted of 31 European banks reported that the majority intended to increase their level of outsourcing, particularly of BPO. Banks that already opted for BPO had a strong focus on efficiency while mostly ignoring the impact of BPO on the effectiveness of business processes (Gewald, H. & Dibbern, J. 2009). There has been a growth of 15% to 20% in revenues from outsourcing activities in the financial institution. Even very large Financial Institution that have stayed away from outsourcing activities are now moving towards it for greater efficiency. According to estimates nearly half of all financial institutions have outsourced at least a part of their services functions. (Lowell, M. 1992.)

They are now concentrating on core competencies (activities or services which provide a strategic advantage or competitive edge) and outsourcing other activities to the best or most efficient provider of a product or service. To be sure, adopting an outsourcing approach impacts an organization dramatically. Prior to analyzing this impact, it is important to understand the trends within outsourcing. (Siemers, R. 19 95).

The financial services industry was among the first industries to adopt large campus-style call centres. Customers needing information about their bank account or information on their credit card balance are likely to get an odd look if they call into a branch and ask for help instead of picking up a phone



and getting in touch with their bank's call centre. Just as banks and insurance firms were quick to see the potential for saving money by consolidating branch office functions in a central call centre, they have also been the first to look further afield in an effort to cut costs. (www.callcenteroutboundcalls.com)

Most companies in the financial services industry started their own call centre known as captive call centres. Captive call centres require huge capital investment and at the same time cost involved in running the centre is very high. In captive call centres all the capital expenses such as infrastructure development are borne by the parent company, third-party call center services outsourcing firms do not require businesses to do so. Third-party call center services outsourcing firms, especially those that have been operational for more than five years, have their own infrastructure, systems, and equipment and they do not charge businesses for these. So, choosing a third-party call center service would help the parent company to save plenty in terms of capital investments. (Figgat, D. & Dove, M. 2008)

Third-party vendors are usually preferred over captive outfits because of substantially lower costs, flexibility and the ability to enforce price and quality competition. (www.infotech.indiatimes.com)

Banks and financial institutions depend upon telephone call centers to meet the needs of a changing and ever more demanding consumer for 24/7 access. Call centers serve as a source of service recovery, added value, market intelligence, and strategic advantage. (Feinberg et al 2002)

The call centre industry is a very big industry and there are a lot of companies that handle projects for majority of the banks and financial institution. These companies have to make distinct marketing strategies so that they could approach banks and financial institution for outsourcing. Through this project we are trying to identify what strategies a call centre needs to have in place if they are to receive projects from banks and financial institution. GEM is a call centre based in Belfast and this project would help in developing a marketing fit for GEM position it as a key customer contact service provider for the UK financial market.

### **Information about Gem**

It is one of the leading providers of outsourced customer service via email, telephone, sms and live chat and in Europe and they operate in 29 different languages. It is considered to be one of the primary developers of best practices in contact centres in U. K. Gem was originally designed to provide services for outsourced email handling and was essentially an email ‘ call centre’. Since then, the company has extended its range of activities and now provides services which include customer care, technical support and sales to back office processing. In addition to providing different kinds of services in multiple languages, gem captures important customer and staff feedback and uses this unique information to consult on enhancing a client’s brand. Exports account for 98% of gem’s business, which includes 38% to the US, 38% to the UK and 15% to mainland Europe.

Gem’s has a wide range of client base from media, e-commerce, travel, hi-tech and government sectors. Current customers include Cisco Systems, King. com, Match. com, Microsoft, Play. com and Channel 4 television. In

terms of certification Gem was accredited with ISO 9001: 2000 in October 2006. Since the company has been operating its business with such high values and they are also one of the major players in the BPO industry in U. K. they have received some industry awards to name a few.

1) Belfast Business Top 50, Belfast Media Group

2) Gold Award Winner for Best Online Customer Service Team (Fingleaves), People in Retail Awards

3) Gold Award Winner for best UK Call Centre Manager of the Year Awards, Call Centre Management Association (www. the-gem. com)

To segment, identify and profile the key players in the financial market within United Kingdom.

U. K has one of the most varied and competitive financial services sectors in the world with both specialist and non-bank providers offering services such as credit cards, insurance and loans. (Farquhar, J. & Panther, T. 2008). The financial services industry is going through a massive change and is fast becoming highly competitive. Traditional players are offering new services to protect their client base and at the same time are competing with new players for a share in the financial services market. The industry in particular is going through a change and new tools, techniques and services have been developed which were traditionally offered via ' bricks and mortar' channels (Boyes, G. & Stone, M. 2003). The major banks have undergone a considerable degree of consolidation, and supermarkets such as Tesco and Sainsbury's, as well as online banks have entered the market for financial

services. Some building societies have become banks. Some banks have taken over building societies, insurance companies and indeed other banks. The type of services has expanded into credit cards, mortgage lending, insurance, and so on. The banking services industry could be divided into four distinct groups: traditional high street banks and former building societies, online banks, credit card companies, and retailers providing financial services. (www. capco. com)

In the UK, High street banks traditionally enjoyed a dominant retail market presence because of their tight control over the payments system. The huge branch system coupled with less use of technology meant that major high street banks like Royal bank of Scotland, Barclays bank, Lloyds banking group, HSBC bank, standard chartered and building societies like Nationwide enjoyed a dominance in the UK financial services industry.(Consoli, D. 2005)

But with the recent crisis in the U. K. banking industry, with the examples of northern rock and RBS there is a lot of distrust among the general public. (Butler, S. 2009). At the same time, high street banks have come under lot of pressure from new entrants to the financial services sector such as Prudential (Egg), Virgin, MBNA and CapitalOne and supermarket chains like Tesco and Sainsbury (Harden, G. 2002).

New entrants who have entered the financial services industry have gained a competitive advantage through the use of technology. New entrants have information from the customers of their traditional activity, and with CRM they can integrate their information sources and exploit aggregated data on the clientele. It could be argued that access to such high level consumer

information should enable banks and other financial institution to give a more personalised and more efficient service. For consumers, the high personal convenience that a bank offers higher would be the possibility of a closer bank- customer relationship and enhanced customer satisfaction (Harden, G. 2002). In recent years new entrants into retail banking sector like supermarket banks and online banks have threatened the dominance of major players. (Essvate Corporation Limited).

### **Supermarket banks**

The reasons why these companies wish to start up in banking are diversification of their business, looking for new sources in order to increase their profitability and a desire to offer a complete service to their customers with the expansion of their current financial services complementary to their main activity. In the UK, the main supermarkets, by means of alliances with banks, have created their own bank subsidiaries, which allow them to offer a whole range of financial products. Some of these are Tesco, Sainsbury and Marks and Spencer. (González & Guerrero 2004)

Among the major supermarket brands eying this banking business, the most high-profile is undoubtedly the supermarket chain Tesco, which is already the country's largest food retailer and has a longstanding personal finance arm that sells car, home and travel insurance, savings accounts and credit cards. It has also been running a pilot scheme providing banking sections inside five of its existing 2, 200 supermarkets for the last few months, and plans to launch current accounts and mortgages over the next couple of years ((MarketWatch: Global Round-up). Tesco has been creating strategies to capitalise on customers' disenchantment with traditional high street banks

by aggressively launching new products to counter the ones offered by banks. U. K. s largest retail chain plans to open 30 branches which is likely to be branded Tesco Bank within existing supermarkets in the coming few months.(Bradshaw, T. 2009)

Another leading supermarket chain, J Sainsbury, already has a Sainsbury's Bank arm offering loans, credit cards, savings and insurance, while the pharmacy chain Boots has expressed interest in financial services. Like Tesco, Sainsbury sees a big opportunity in the financial services market. According to Darren Shapland, Finance director of Sainsbury, the supermarket chain is a challenger and not as big as some of the other financial service providers but there is a huge potential since 1.8 million customers walk into their shops every week (Butler, S. 2009).

The UK's leading bookseller, stationer and newsagent chain WHSmith, meanwhile, has Post Office branch facilities in 80 of its stores, with services that extend to savings accounts and foreign exchange.

Another retailer Alliance Boots wants to get into the financial services industry and coincidentally or not has hired former HBOS CEO as its new boss. But in the case of Boots they have no tradition of offering financial services products apart from travel insurance and it may take them a few years before they could be regarded as force to reckon with. (Butler, S. 2009).

At the other end of the spectrum are overseas interests that see an opportunity for a tightly focused banking operation in the UK, running a few branches and targeting a very specific market. The most high-profile among these is Vernon Hill, the US entrepreneur who founded Commerce Bancorp in <https://assignbuster.com/classification-of-outsourcing/>

1973 and grew it into a business that he eventually sold to Toronto-Dominion for \$8.5 billion in 2007. Hill has applied for a banking license with the country's regulator, the FSA, and has gone public with plans to open the doors of an institution called Metro Bank (MarketWatch: Global Round-up)

The highly competitive nature of the financial services market has resulted in new developments and banks are creating strategies to utilize alternative delivery channels. One of the delivery channels that have been in existence for some time now is electronic or online banking. Many of the financial institutions in the UK have launched or developed transactional electronic banking services. Internet banking services were first introduced in the UK in the early 1980s with the "Homelink" service provided by the Nottingham Building Society and the Bank of Scotland. But this service was not very popular then and was discontinued after some time (Daniel, E. 1999). Since the rapid development in internet based services, customers now are more prone to use this service it is possible for them to use banking services anytime and anywhere at their own convenience and with lower fees as compared to traditional banks. Internet banking has given rise to a relatively new concept called internet only banks where these organizations don't have a physical set up like traditional banks but provide all types of products and services through internet, telephone and ATM machines. (Sayar & Wolfe 2007). First Direct was not one of the first banks to launch internet only bank in the summer of 1997. Egg is still the most popular internet only bank with a market share of 5.9% in the online banking sector. Internet banks like Egg, Smile, Cahoot and First Direct have a simple banking principle keep costs low and undercut competition.

**Credit Cards**

- Credit card helps the card holder to obtain credit from the card issuer and allows him to repay the debt over a flexible time period usually 90 days and user can even to add to the debt by paying a certain amount of interest; this is the so-called revolving credit facility. Majority of the banks in the UK provide credit card facilities. The other financial institutions which provide credit card facilities are monoline banks. Monoline banks are credit card issuers who focus on credit card as their main product lines. Companies such as MBNA, Capital One and Morgan Stanley and types of Monoline banks operating in UK (Worthington & Edwards. 2000). The competition in the credit card market in UK has intensified in the last few years. The result of this has been the emergence of flexible credit cards. These types of credit cards allow users to select the features of their card which includes the colour of their card and the APR and they also have the option of changing the features based on their circumstances. Virgin and Cahoot are some of the card issuers who are offering such features. (M2 PRESSWIRE 2003.). U. K. is one of the largest users of credit card, with more than half in U. K. as compared to entire Europe and two thirds of total value transactions. (Irish News 2004).

**Other financial services**

- Personal Loans are one of the other services provided by the financial industry. They help customers to borrow credit from banks and other financial institutions and they pay interest for using the credit over a period of time. Personal Loans are available either against collateral or in some cases with out collateral. Some of the major players in the Personal loan market in the U. K are Nationwide, Sainsbury, HSBC and Abbey (Santander).  
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**Insurance**

- Insurance is a service where the insurer is covered for risks by paying a premium to the insuring company. The premium is either paid on a monthly, quarterly or yearly basis. Some of the major insurance companies in U. K are Norwich Union, Standard life and Legal and General.

To identify what processes or departments in financial companies can be outsourced.

The advent of technology has meant that customers have multiple sources to contact their service providers. The first service that was launched by banks was telephone banking wherein customers could contact their banks 7 days a week and 24 hours a day. Most banks started with their in house call centres called captive call centres to provide service to their customers. As discussed above due high fixed and operation maintaining a captive call centre is an expensive proposition. That is where third party call centres come into picture. The services that are offered in call centres are customer service where customers query about his bank accounts, credit cards, personal loans or mortgages are serviced.

Marketing of banks products is another service that call centers provide. Popularly known as telemarketing, this service helps banks to make customers aware of different products and services they offer and also any discounts that they could be eligible for. Banks also face a lot of situation where customers have either used their accounts over the agreed overdraft limit or they haven't paid their regular installments for their credit cards, personal loans or Mortgage loans. Most banks have a separate department

to handle these type of situations which would help them to contact the customer for debt. recovery. These departments are known as collections teams, and would call customers to remind them that they have failed to make their regular installments. Online banking is another service that banks offer and as discussed above offers anytime banking to customers at the click of a button. Call centres provide customers service for online banking services as well so that if the customers face any issue while they are online they could be guided in the right direction.

Chat service is another part of online banking, and even though most banks have not introduced it for customer service in bank accounts and they are used for mortgage servicing. All the banks do their best to satisfy customers either through good customer service or through different types of products, but inspite of this there a small number of customers who remain unsatisfied and these types of customers would like to express their dissatisfaction.

Complaint handling teams would normally service these types of customers and they would thoroughly look at customers complaints and would try to resolve them with the business policies of the bank. Back office process like processing of bank accounts, personal loans and mortgages are some of the other services that call centres provide to financial institution. In case of insurance companies claims handling would be would be one of the services offered by Call centres.

Some of the financial institutions that have indulged in outsourcing are HSBC, Abbey and few others banks. Most of these banks have outsourced their operations to offshore locations like India. A complete list is mentioned in Appendix 1.

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