

contact centres
shared-services centres,
and the **Tees Valley**



EXCLUSIVE REPORT



business services centres: **a new generation**

A significant innovation in business practices over the last decade has been the growth in specialist business services centres – beginning with contact centres and today embracing shared services centres.

The Tees Valley is a natural home for business services centres, and has supported their introduction and growth very carefully. Development in the area has been planned to ensure that suitable staff and locations are available, that businesses can be guided to the right site or premises, and that help is offered with services such as recruitment.

The success of the Tees Valley has been based throughout on extensive research. Highlights of the latest studies have been assembled in this report. We are sure you will find the data interesting and valuable, and also, of course, that you will appreciate the advantages of locating a business services centre in an area that takes them so seriously.

New research shows a bright future for UK business services centres



Over the last decade, contact centres and shared services centres have become significant features of the British business landscape. Are they here to stay? How will they develop? Does offshoring threaten their future in the UK? What is the future for business services centres? What makes the ideal location for them?

In the Tees Valley, we've always given them special attention. Their future matters to us. And so we have completed three independent research studies. A 'survey of surveys' brings together the findings of the full range of private and public studies of the contact centre sector and its development. A second study looks at the current state of contact centres within the Tees Valley. And to complete the picture, a third study looks at the emerging shared services centres.

Briefly, the studies combine to show that

- there's a great deal of growth still to come in UK business services centres;
- the centres themselves are changing dramatically – in functions and services provided, size, quality and costs of staff, and technologies employed ...
- **And the right location is fundamental to the success of a business service centre.**

Which, of course, is good news for us in the Tees Valley! Our success so far means we really do offer the right location, and the report means that there's still a very bright future ahead for business services centres of all types – in the UK, and in the Tees Valley in particular.

Further copies of the report are available from us here, at Tees Valley Regeneration, or on the web at www.teesvalleyregeneration.co.uk. And of course, we're always happy to discuss at length any issues raised by the report, or any relocation plans you may be considering.

Just phone me, or ask to talk to any member of our business team.

Neil F. Etherington
Strategic Investment and Marketing Director



Executive summary

This report summarises three separate studies carried out for Tees Valley Regeneration. They cover the growth, current situation and future of contact centres in the UK; the experience of contact centres already established in the Tees Valley; and the emergence of shared services (back office) centres.

They show that:

- the number of agent positions and centres in the UK and globally will continue to grow, though at a reduced rate;
- the most significant criteria for locating centres are workforce availability and quality; premises availability, quality and cost; and local infrastructure (particularly local transport);
- the Tees Valley scores very highly with local contact centre managers on the significant criteria, and shows no sign of exhausting the resources on which contact centres rely;
- as the contact centre sector matures, the future is one of segmentation and specialisation;
- contact centres in the UK will tend to downsize, and concentrate on new technologies to support higher-value services;
- shared services centres, which move to low-cost locations to consolidate business-facing services, are emerging alongside contact centres, and share many of their criteria and characteristics.

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STUDY ONE

The evolving contact centre

The study comprises a survey of surveys. All surveys currently readily available in the public domain were studied and relevant data extracted. The objective of the study was to identify trends in the structure, functions and locations of contact centres, with particular attention to the future of offshoring. The findings are relevant to the senior management of commercial enterprises, government and local government organisations, and to the managers of in-house and outsourced contact centre operations.



1. GLOBAL TRENDS

1.1. Global growth by agent positions

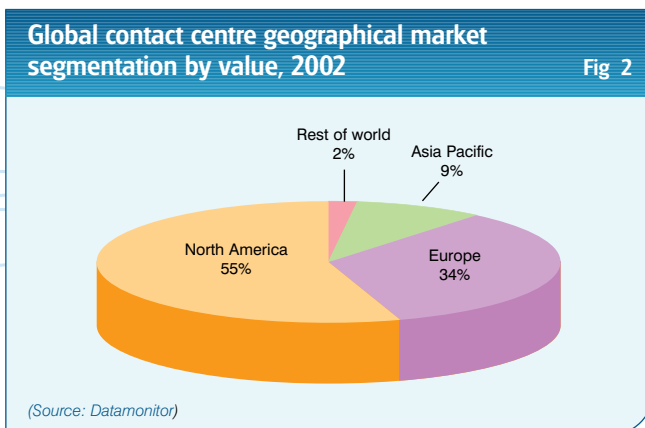
Globally, growth has been rapid since the late '90s and is expected to continue, though at a gradually reducing rate.

Year	Agent positions '000s	Agent growth rate
1998	2542	n/a
1999	2955	16%
2000	3254	10%
2001	3446	6%
2002	3632	5%
2003	3966	9%
2004	4278	8%
2005	4372	2%
2006	4435	1%
2007	4463	1%

(Source: Datamonitor)

1.2. Global contact centre market segmentation

Within the European sector, the dominance of English as the required language has given the UK by far the largest share.



2. UK TRENDS OVERALL

2.1. Current growth/decline trends

The UK contact centre industry has grown by 250% (number of agent positions) since 1995, and is forecast to grow to almost 650,000 agent positions by 2007. (NB ratios of positions to employees vary across forecasts.)

Year	Agent positions '000s	Agent growth rate	Growth rate in nos of contact centres
1995	143.9	n/a	n/a
1996	169.8	18%	9%
1997	203.8	20%	12%
1998	264.9	30%	13%
1999	331.2	25%	15%
2000	387.5	17%	12%
2001	430.1	11%	8%
2002	460.2	7%	5%
2003	494.3	7%	5%
2004	538.7	9%	4%
2005	581.8	8%	3%
2006	616.7	6%	3%
2007	647.6	5%	2%

(Source: Gartner Dataquest, Datamonitor and ContactBabel)

The ratio of employees to positions in some estimates implies 1 million employees by 2007 (from an estimated 0.8 million in 2004). However, the industry will continue to segment, with differing requirements in each segment. *DTI; ContactBabel – May 2004.*

There are an estimated 4,300 contact centres in the UK, of which only 16% employ more than 100 people. A further 900 new call centres are expected to open between 2004 and 2007, creating 66,000 positions. Average new contact centre size, based on this prediction, would be 73 seats. *ContactBabel; Cushman & Wakefield.*

Constraints on growth in the UK include industry maturity; the 'loss' of jobs to overseas locations, currently estimated at 200,000 by 2014; and a trend towards downsizing.

29% of existing call centres downsized in 2003 (*Call Centre Association*), attributable to increasing productivity; new technology – particularly automated voice systems; and the evolution of the industry towards more segmented (specialised) operations.

Of 900 new contact centres forecast, it is estimated that one third will locate in existing branches of the parent company, or alongside back office functions. (See Study 2.)



2.2. Size and growth by vertical sector

The distribution of contact centres by size varies very considerably by vertical market sector. Growth will also vary by sector, with Retail/Distribution and Public Services (including Government and Local Government) numbers expected to show the greatest growth.

Contact centres by vertical sector and size										Fig 4
Vertical Sector	Agent positions								Total CCs	Total agents
	10-50	51-100	101-150	151-200	201-250	251-500	501-1000	1001+		
Finance	332	165	61	41	39	91	49	19	818	125,983
Retail/Distribution	439	68	19	20	12	41	15	14	621	64,816
Services	369	127	45	4	9	18	8	0	578	33,922
Transport/Travel	326	137	25	23	17	27	11	1	569	42,169
Manufacturing	374	41	21	6	3	2	1	0	437	15,948
Outsourcing/Telemarketing	213	81	20	14	12	27	19	8	398	49,244
IT	235	55	23	8	1	14	12	0	345	24,175
Public Services	219	31	10	6	4	6	2	1	274	14,620
Printing/Publishing	223	37	5	5	3	2	0	0	269	9,859
Telecoms	117	31	21	15	12	10	26	4	241	36,150
ISP	119	31	12	4	0	5	1	1	171	10,439
Entertainment/Leisure	93	31	9	7	2	7	4	4	157	16,266
Utilities	52	21	12	11	14	17	13	6	152	30,740
Food/Drink	77	24	7	0	0	0	1	0	110	4,897
Motoring	58	14	12	0	6	7	8	0	107	11,989
Medical	59	8	1	0	2	2	0	0	71	3,038
	3,304	904	303	165	138	277	170	59	5,320	494,255

(Source: ContactBabel. Not all columns add, and figures are not absolute. Estimates have been treated as real to give a perspective of relative importance.)

2.3. Geographical distribution

Some UK regions are weighted towards the smaller end of the industry. This may be because the smaller contact centres are often based around their head offices. Once a contact centre is so large that it cannot stay within its original building, it becomes a candidate for relocation to a lower-cost region.

In the Tees Valley, the average call centre employs over 200 staff. A third of the call centres in the area average 475 employees each: there is a large pool of experienced staff. See Study 2.

3. ONSHORE OR OFFSHORE?

3.1. The key decision factors

Clearly, a number of factors affect the decision to offshore or not. The following appear to be the decisive ones.

- Expertise
- Infrastructure
- Data-protection legislation and external factors
- Acceptability to users and potential staff
- Costs

3.2. Propensity to move offshore by sector

The factors in 3.1. are general. Closer analysis of individual market sectors identifies some sector-specific factors which are affecting the decision on whether or not to move offshore.

Vertical centre issues and propensity to go offshore			Fig 5
Sector	Commercial issue	Impact on contact centre and potential for offshoring	
Insurance	High level of claims and risks, reduced profits, merger and acquisition activity.	As revenue growth is low, there is high cost-cutting pressure. Most prone to moving offshore following back-office work out of the UK. Multiple contact centres with different systems means there is a need to consolidate, likely to lead to an increase in offshoring.	
Banking	Mergers and acquisitions.	Internet and SMS cutting costs and leading to branch closures and a rise in cost centre jobs. Global outlook means some banks are considering although others are ruling it out.	
Retail	Internet sales taking off and new competitors.	Mail order and retailers now have a web presence for live customer support. Offshoring gives out-of-hours and technical support.	
Government	eGovernment initiatives combined with cost-management and process improvement.	Edicts and financial support force local authorities and government to offer internet and phone access. Major growth area in last two years. Offshoring unlikely.	
Utilities	Deregulation driving competition. Emphasis on reducing costs, and CRM.	Consolidation means fewer, larger contact centres. Seem to accept the value of local knowledge, though some offshoring is likely.	
Telecoms	Telecoms crash and deregulation.	Massive flux and desire to grow customer base. Large contact centres, but little move offshore yet.	
IT and ISP	Increased IT and broadband usage.	Increased need for technical support, especially in the evenings. Possible target for offshoring, particularly when technical capability required.	

(Source: ContactBabel)

3.3. Commercial reasons for offshoring

Irrespective of sector, the types of company the most susceptible to moving overseas are those with high-volume, low-value, routinised, short-call-cycle activities or profound financial difficulties.

Some offshoring decisions have failed, and anecdotal evidence is that businesses are choosing a balance of locations and are not seeking to move everything offshore

Cost-reduction is the main reason for moving offshore. Such cost-reductions may have seemed particularly attractive to large-scale outbound operations with low-margin products or low-value customers.

In addition, a significant factor is that organisations may not have to pay VAT at offshore locations. This is especially important in the financial sector, where firms are unable to claim back VAT paid. Deloitte Research predicts that some two million finance jobs will be outsourced from Western economies to India by 2008.

4. THE EVOLVING CONTACT CENTRE

4.1. Evolution of functions

ContactBabel estimates that two-thirds of activity is inbound calling from customers, suppliers and partners.

Though the Telephone Preference Scheme has attracted 25% of British households, and regulation is constraining outbound growth, outbound calling continues to grow (*OMIS*). 57% of contact centres are capable of handling both inbound and outbound calls and 40% (mostly larger, older, simpler operations) handle only inbound.

The public sector is set to continue its adoption of contact centres, driven by announced Central Government targets for shedding jobs and increasing its reliance on 'e-Government'. Some South East-based local authorities have been driven by cost to open contact centres in remote regional locations.

4.2. Technology evolution

At the low-quality end of the market, voice automation systems (speech recognition, self-selecting transactions, etc.) are replacing low level call-centre functions. *ContactBabel*

1990s analysts predicted the growth of multimedia, but by December 2003 the volume of non-telephone contact stood at just 8.4%. Certainly, multi-channel contact centres have grown, with up to 50% of contact centres claiming a mix of web/email/voice options available (*Merchant*). However, incompatibility of systems from different providers is holding back true integration. Non-voice traffic is still mainly inbound (from customers) rather than originated by contact centres. VoIP and web-chat technology are expected to grow steadily (from around 5% in 2002/03).

4.3. The new contact centre profile

Overall the most likely future *new* UK contact centre profile is a mix of increased technology dependence (replacing low-level transactional voice traffic); added-value, or simply higher-quality, customer services; and a size smaller than the historical contact centre, perhaps averaging 70 seats.



5. UK LOCATIONS: CRITERIA FOR SUCCESS

5.1. The important location factors

One of the most consistent (and available) surveys of location criteria is published by Adecco (research by OMIS). The 2002/2003 survey gave the following rankings of criteria:

Important location factors: UK		Fig 6
Workforce	93%	
Premises	20%	
(Local) transport	13%	
(Operating) costs	7%	
(Local) amenities	6%	
Other infrastructure	5%	
<small>(Insignificant ratings for incentives, customer/market proximity or other call centre proximity)</small>		
<small>(Source: Adecco)</small>		

79% of contact centres are in towns or cities; 29% in suburbs. Less than 20% of properties had been purpose-built.

6. WORKFORCE

6.1. International comparisons

Employment levels in contact centres in the UK are higher than those in Europe, and similar to the US. The Tosca Call Centre Employment report of 2002 predicted that 1.3% of the European workforce would work in contact centres by the end of 2002.

Not surprisingly, contact centres in developing countries pay lower salaries. ContactBabel calculates salaries for new agents of £12,900 (UK), £12,000 (Netherlands) and £11,800 (Ireland) compared with £1,500 (India), £3,500 (South Africa) and £1,600 (Philippines).

UK staff attrition rates can be as high as 38%, but on average are better than those of India, the Netherlands and Ireland. In the Tees Valley, an independent survey has seen operators report rates below 10%. See Study 2.

Globally, the UK is the second-largest player in the market, with around 790,000 agents.

6.2. UK workforce: profile

- **Importance of workforce**

Workforce availability, quality, retention, suitability and flexibility remain the most important considerations for locating UK contact centres (*OMIS 2003*). Around 790,000 people work in the UK contact centre industry.

- **Agent skills required**

The single dominant factor for agents is general communications skills (stated by over 70% of contact centres in virtually all published surveys).

Skill sets said to be in growing demand are written skills, technical skills and specific industry knowledge. Verbal communication skills are considered most important. No specific educational qualifications are sought in most contact centres (49% of staff have none – *OMIS*).

- **Training is essential**

Training, both in-house and bought-in from training providers is critical to nearly all contact centres. 80% plus give 4 to 6 weeks training, mostly prior to any 'hands-on' work – all surveys confirm. In-house courses are generally preferred to external courses.

- **Typical agent profile**

The typical contact centre employee is female, aged 20-29, without higher education but with contact-centre experience, and employed either full-time or part-time on a permanent basis. 70% of contact centres employ part-time staff. Returning workers, and older staff (to reduce churn) are frequently employed. In cities with a large student base, students form a significant proportion of the workforce. Low (but still substantial) use of temporary staff (25% of contact centres – *OMIS*) may reflect an easing of the labour market in contact centre locations.

Though numbers are smaller, the male profile is similar to the female. CCA/Sheffield University states that some 69% of customer contact staff and 63% of team leaders/first line are female. For contact centre managers, ContactBabel states there is a 50/50 female/male split.

- **Churn rates not dramatic**

CCA/Sheffield University calculates the average agent tenure as 32 months, team leaders 43 months, and managers 56 months.

Government, retail/distribution and utilities agents stay the longest. Telecoms and outsourcing has the shortest average stay, although both are over 2 years.

ContactBabel believes that the smaller centres (10-25 agent positions) have a longer length of service of 45 months, and the largest (250+ positions) have a 50-month length of service.

Average churn rates are 15% (*ContactBabel 2004*) but may still be as high as 38% in some locations (*OMIS 2003, Mitial 2003*).

• UK salaries

Wage costs remain in the region of 70%-80% of total costs and hence provide a powerful motivator. (All surveys confirm.)

Region	Median (£)	Region	Median (£)
N. Ireland	11,100	W. Midlands	12,000
Yorkshire	11,500	Wales	12,500
Scotland	10,900	N. East	12,500
E. Anglia	11,875	S. West	12,500
E. Midlands	11,448	S. East	13,500
Tees Valley	12,000	London	15,250
N. West	12,000	All contact centres	12,520

(Sources: ContactBabel, Tees Valley Regeneration independent research)

Note: starting salary figures for the Tees Valley begin at around £10,500 plus shift allowances after 9:00 pm.

Outsourcers pay the lowest starting salaries (£11,000) and IT the highest (£13,250). Small centres tend to pay higher salaries (10 to 25 agent positions: £14,000) than the largest centres (250+ agent positions: £12,000). (*ContactBabel*)

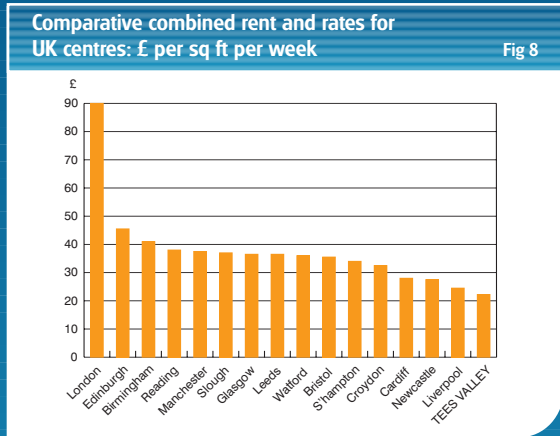
• Quality, availability, recruitment

Cost is surpassed by concerns about workforce availability and quality (93% of contact centres).

Recruitment problems have eased recently (*OMIS 2003*). 50% of contact centres are experiencing recruitment difficulties (still high) compared to 70% in 2001. However 70% of contact centres in the same survey said they were 'broadly satisfied' with workforce availability.

The great majority of contact centres in the Tees Valley rate labour availability as good, very good or excellent. See Study 2.

7. BUILDINGS AND PREMISES COSTS



There is a very wide variation in rent, service charges and rates from area to area in the UK. Clearly, the Tees Valley offers opportunities for very substantial savings. GVA Grimley states that new contact centres are in the 30,000 sq ft to 50,000 sq ft category. A 50,000 sq ft office development in a prime location in the Tees Valley would accumulate overall accommodation costs of £1.11 million p.a. compared with £4.5 million in central London or £1.87 million in, say, Manchester.

The Tees Valley currently has over 200,000 sq ft of immediately available prime office space, with more due to come on stream over the near future, and the capacity for bespoke requirements at a number of sites where developers are already engaged.





SOURCES USED IN THIS REPORT

External Surveys

Adecco/Omis: Biennial Survey of contact centres (2003)

Call Centre Association (CCA)

Cushman Wakefield, Healey & Baker: Call Centre overview 2004

DTI/Contact Babel: Contact Centres 2004

Datamonitor: Offshore Outsourcing 2003

GVA Grimley: Periodic Property Review

Merchants Group: Global Contact Centre Benchmarking Report 2003

Mital Research: UK Call and Contact Centre Study 2002

TOSCA: Call Centre Employment Project 2002

Independent surveys commissioned by
Tees Valley Regeneration

**Business services centres in major companies:
JSGL Partnership/Benchmark Research**

Tees Valley Contact Centres: NWA Social Research



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Investing in Tees Valley

