

When Offshore Support Needs Help

By Rahul Sood, principal, Tech Strategy Partners

Over the past few years, the number of companies that have moved their technical-support operations offshore has increased significantly. No doubt that many of these firms were carried away by the promise of the 60% to 80% salary cost savings between lower-cost locations like India, Philippines, or South East Asia and the United States. However, some of the companies that offshore support operations are realizing that the actual savings are much lower than their initial projections. What's going wrong?

Our experience working with enterprise-technology vendors and the joint research with the **Services and Support Professional Association (SSPA)** on enterprise demand for technical support suggests that companies need to better understand the customer demand for technical support and the economics of meeting this demand from offshore destinations. They need to carefully segment their technical-support requirements and select the call segments for which the business case is most attractive and robust. Indiscriminate offshoring of technical support will not only dilute the savings but also can cause customer-satisfaction problems.

There are four main reasons why the actual realized savings are much lower than the initial projections.

First, the investment required to seed offshore capability is usually higher than anticipated. Offshore support centers often have a longer-than-planned gestation period. Complex products can require up to 18 months before the offshore teams are fully independent and can take the full load. During this period, companies need to incur additional costs as they maintain dual capacities—local and offshore. Moreover, they need to invest significantly offshore in training and knowledge-transfer activities.

One of the factors that is extending the gestation period is the high attrition rates in offshore locations. Offshore technical-support centers are facing attrition rates of at least 20% to 30%, much higher than the attrition rates for offshore development centers. The working hours in offshore technical-support centers are inconvenient, due to the time-zone differences between the U.S. and some of these companies. Offshore support reps often need to work night shifts to serve U.S. customers. In many cases, these centers operate on a 24x7 schedule to serve global customers. The tough lifestyle is becoming a key motivator for offshore staff to seek other employment options where available.

In some cases, companies see initial drops in customer satisfaction as they ramp-up their offshore capacity. The recently completed 2005 Support Demand Research Series, conducted by **Tech Strategy Partners** and the SSPA, surveyed 2,000 consumers and 200 enterprises and found that 46% of the consumers discourage vendors from offshoring. Their resistance to offshoring is higher than that of enterprise users, of whom only 38% discourage offshoring. Further segmentation of the consumers surveyed reveals that older consumers, consumers in the higher income group, and consumers who consider themselves experts are more resistant to using offshore talent than their counterparts.

Second, the savings cannot be fully realized due to the need to maintain some local support capability. Saving calculations are based on replacing expensive local talent with lower-cost offshore talent. Companies are now realizing that it is not easy to completely replace their local talent with offshore talent. Certain customers find using offshore technical support unacceptable for a variety of security, political, and cultural reasons. Government and public-sector clients often mandate vendors not to use offshore support. This forces companies to maintain some local technical-support capability. Companies are also realizing that they need to maintain some local support capability to provide on-site support for handling escalations or complex support cases.

The third reason for lower-than-projected cost savings is higher wage inflation in the offshore destinations than in the U.S. Salaries in the U.S. over the past few years have been largely flat or declining. Wage increases have been limited to the lower end of the 2% to 4% “merit” increases. Salaries in offshore destinations have been growing at a rate of 20% to 30%. Since it can take up to one or two years for an offshore technical-support location to be fully independent, wages can increase 1.5 times between the time the decision is made to go offshore and the time the offshore center is fully productive.

The fourth reason is that improvements in Web-based support—an area which has attracted significant attention from product vendors—complicates the task of offshore reps. Web-based service accounts for 25% of incremental spending in tech support at companies who are members of the SSPA. Some of these investments are beginning to pay dividends in terms of slow down of call volume.

The Support Demand Research found that customers expect up to 40% of their current calls could have been self-serviced through the Web. This results in an increase in the complexity of the average case fielded by technical support. And it makes it even more important to staff technical-support operations with highly trained, expert matter subjects, which is not always easy in offshore locations because of the low average tenure of employees and high attrition. As a result, the productivity of offshore tech-

nical support suffers as companies become more successful with case avoidance and self-service strategies.

Solving The Puzzle

So what does this mean if a company is planning to offshore your technical-support operations? Offshoring technical support is still a prudent business idea and continues to be a “must-do” for most technology companies. However, to reap the benefits of the “offshoring promise,” companies need to apply this with more thought. Customers need to carefully segment their technical-support requirements and select the call segments for which the business case is most attractive and robust. We recommend that companies looking to offshore technical support try to segment the candidates based on the following three criteria:

Take an integrated view of support and engineering. It’s easier to offshore support for products for which engineering is already outsourced. First, an integrated approach allows companies to share the investment required in transferring the knowledge offshore for engineering and support. Second, it makes it easier to attract and retain talent by providing the workers with a broader set of professional experiences. Finally, it makes it easier to manage the escalation process if development and support are co-located.

Select products for which it is relatively easier to transition the product knowledge. Offshoring support for shrink-wrapped software—for example, productivity tools—is relatively easier than for highly customized or configurable software—such as systems management. In addition, it is easier to find local talent with relevant domain expertise for products that have strong local markets in the offshore destinations.

Segment the types of calls based on response times. Greater than 70% of calls for mature products are low-priority calls, rated as severity 3 or 4, which have response times typically of several days. These calls are prime candidates to be handled offshore. Moreover, companies often have backlogs of customer cases, running into several months of average case-handling capacity. These cases are largely low-priority cases and not time critical, and can be easily offshored.

By properly segmenting the technical support capacity, companies can limit the risk of cost escalation of their offshore programs and maximize their chances of reaping the benefits of the “offshoring promise.”

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