

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 THREE

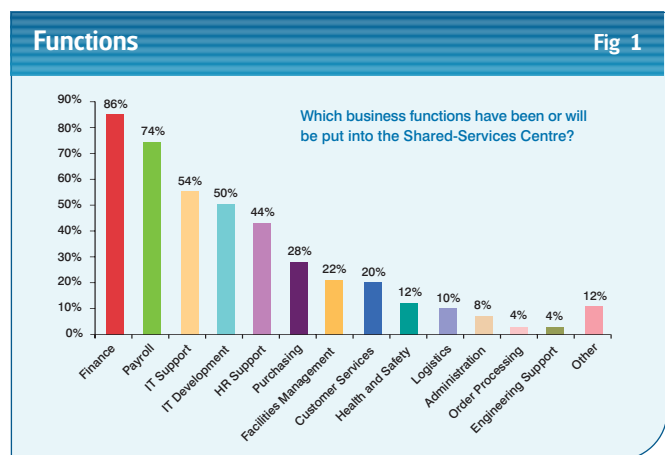
The emergence of shared-services centres

This study concentrates on the business services departments most companies maintain. These services – accounting, IT, facilities management, HR and other similar services – are essential to the smooth functioning of an enterprises. Yet they need not be located in expensive head-office premises, or even replicated from Division to Division or location to location. By stripping them out, consolidating them when they are replicated, and locating them in cheaper, dedicated – often remoted – shared-services centres, considerable cost savings are possible. And the concentration of expertise in these dedicated centres often means a marked improvement in the service provided.

The study was carried out in 2003 among randomly selected Managing Directors, Financial Directors and senior financial managers of the UK's top 1,000 companies by turnover. Respondents were restricted to those who had or intended to set up shared services centres. Its objective was to discover the characteristics of the new shared services centres and examine how far the concept has penetrated. The study is still unique. Highlight results below are of particular interest to Managing and Financial Directors.



1. WHAT SERVICES DO COMPANIES CONSOLIDATE?

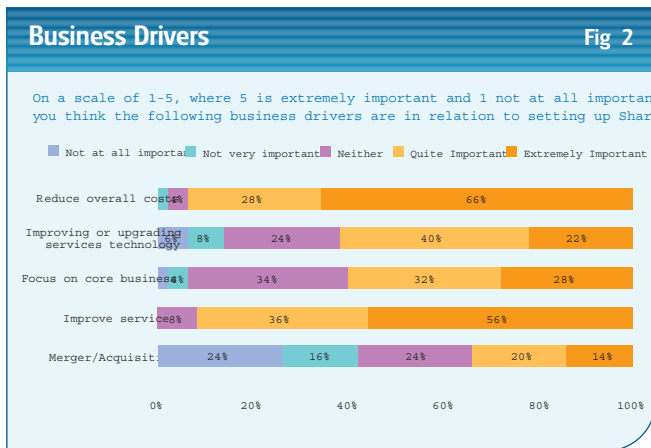


Not surprisingly, financial functions and payroll get most mentions. Financial processes are so uniformly regulated and standardised as to be almost entirely independent of an organisation's core business processes, and are a natural subject for consolidation.

Today, the same applies to IT processes and development. The data processed and the uses made of it will vary hugely from organisation to organisation, but the architectures of the networks and devices involved are now, ideally, uniform across the entire enterprise.

All the functions mentioned in the chart, including the management of facilities – though not, of course, hands-on systems maintenance – can be performed anywhere, by anybody with the right skills. They are undifferentiated, and not specific to any core business.

2. WHY DO COMPANIES CONSOLIDATE SERVICES?



The main driver is naturally cost-saving. Nearly two thirds of all the correspondents who had implemented or were considering shared services identified it as ‘extremely important’. It is followed very closely by the expectation of improved service – an outcome of focused function management, shared expertise, and freedom from distractions by core-business activities and people. Over 90% of respondents see these benefits as quite or extremely important.

Next in line is the major benefit in the freedom that managers of the core business get to concentrate on that business when the administrative management is taken care of elsewhere.

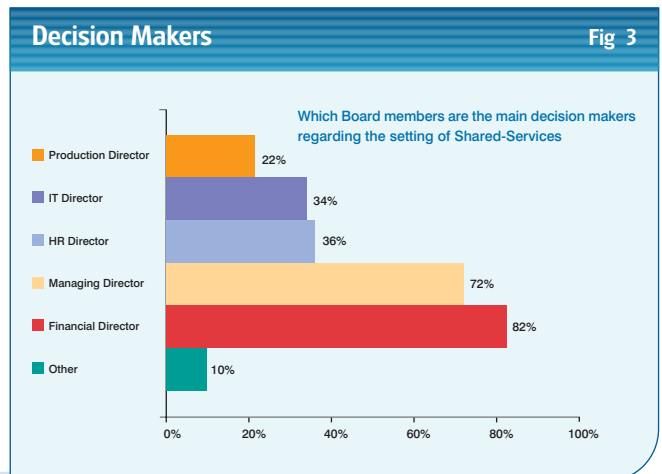
The opportunity to improve or upgrade technology rationally ranks next. Plenty of companies are still hampered by islands of different and incompatible IT systems, preserved in individual divisions and departments. There is no incentive at a departmental level to change the system – and plenty of incentive not to undergo the disruption of doing so.

Finally in the top five drivers come the problems brought by mergers and acquisitions, when both (or several) parties bring their existing systems in their baggage. An independent department allows for objective rationalising, and cutting out replication.



3. WHO DECIDES?

The main decision-makers are predominantly MDs and FDs. The involvement of other function heads shows how far-reaching the decision to share services is regarded as being.



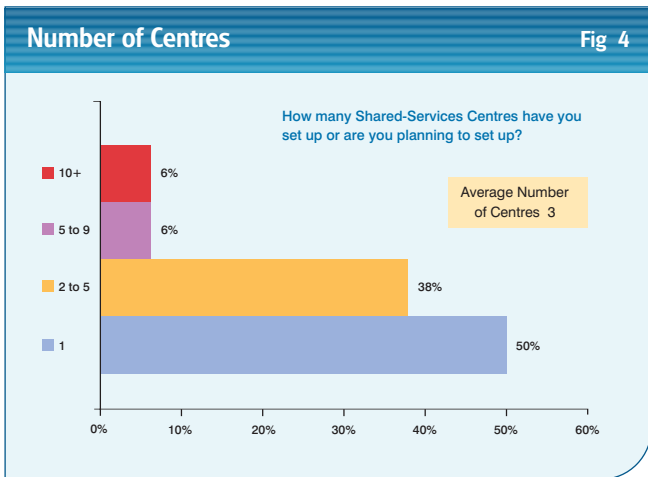
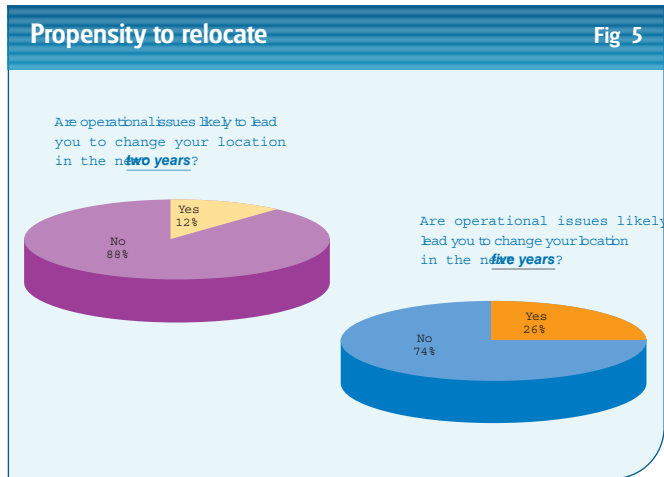
4. HOW ARE THEY APPROACHING IT?

There are naturally variations in the way different organisations have approached the setting up of shared service centres, but in the charts that follow there are some clear patterns. Most – but not all – respondents have set up a single centre. Most – but not all – expect to keep the centres where they are now. Most – but not all – have set up substantial units with 100 or more staff. And so on.

4.1. How many centres?

Consolidation doesn't necessarily mean taking all business services and locating them in a single shared-services facility.

4.2. How likely are they to change location?

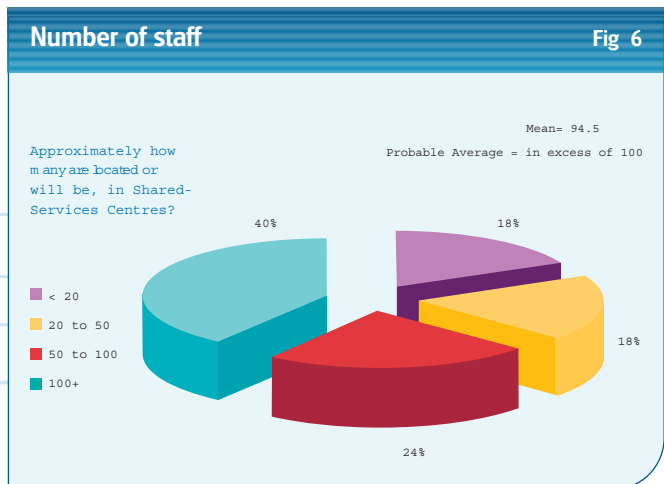


Setting up a shared services centre is a substantial project. Detailed feasibility planning of both logistics and systems, 'selling' the proposal internally, location-finding, installing and testing new advanced hardware and software, recruiting ... the ramifications are very wide, and the level of investment high.

But business plans are necessarily dynamic. Anyone familiar with the history of contact centres will remember that many of them were set up initially in the nearest, cheapest buildings available. Experience, and the growth in importance of call centres soon established that they call functioned most effectively in optimised premises, and many moved on within a year or two.

Though most respondents had done just that, others had established anything up to 10 or more centres. The reasons could be sheer volume of work, a desire to keep associated services (e.g. finance, pensions and payroll) together but separate (a sort of shared services within shared services), geography, local shortages of staff or skills, or a mix of these and other factors.

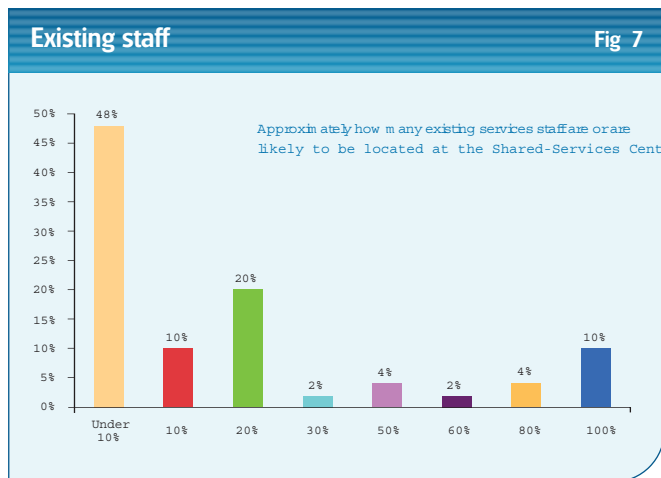
4.3. How big are the centres?



The sample was drawn from the UK's biggest companies. Given that fact and the general tendency, as we have seen, to set up only one centre, it is not surprising that the centres are rather large units. In some areas of the UK, housing and staffing units of this size is not easy.

Study 1 shows that the average new contact centre houses only around 70 operators. Both their size and the sectors and services they represent give large contact centres a propensity to relocate off-shore. Shared-services centres are somewhat easier to staff, since staff are not customer-facing and tend to have more widely-available qualifications. Nevertheless, if shared services centres are to reduce costs they must themselves cost as little as is consistent with a quality service. This will tend to mean remoting them, at least from prestige head-office locations.

4.4. Where will the staff come from?

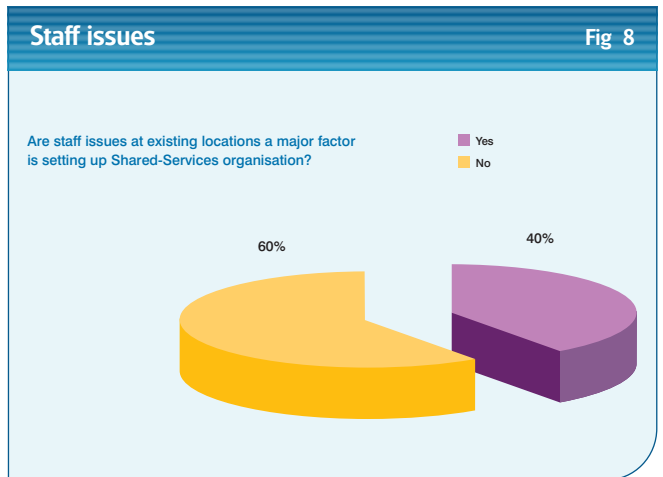


Setting up a shared-services centre displaces existing staff within a company's various Divisions and units. It might be expected that companies would try to staff the centres from these displaced staff.

In fact, most centres are largely staffed by new people. 78% of respondents have moved 20% or fewer of their existing staff into shared-services centres.

As a result, shared-services centres tend to create new jobs and will usually be welcomed into areas of high unemployment, provided there is an adequate supply of skills available (or core skills can be imported).

4.5. Relocation to resolve staff issues



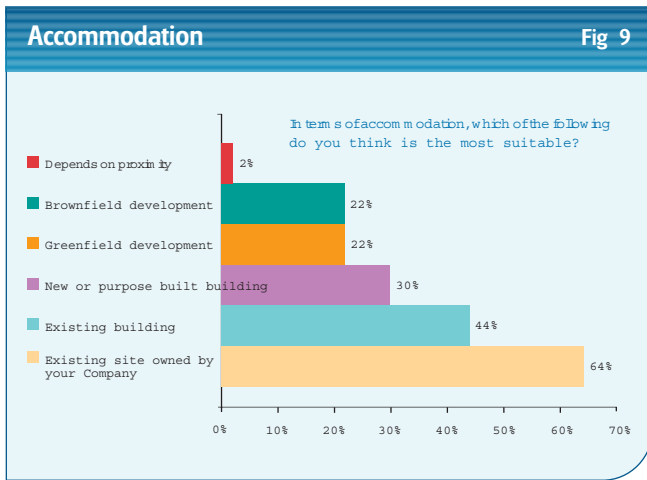
Staff issues at existing locations loom large in the decision to set up separate shared-services centres. The three most important issues are labour costs, local travel problems and skills availability.

Contact centres tend to rank staff availability and quality ahead of staff costs as factors in the decision to relocate. The main driver for shared services centres is cost-saving, and for them, staff costs are also very important. Remoting services often allows an organisation to tap sources of staff where competition has not distorted realistic wage structures.

Next is the issue of local transport, increasingly common in large conurbations – and possibly a function of interview bias towards the top 1,000 companies. By a careful choice of areas outside these conurbations, companies can enlarge their catchment areas for staff, while still easing the length and cost of their journeys to work.

The third issue is that of skills. Most areas that are seriously trying to encourage inward investment have recognised the need to develop a supply of people with the most usually demanded skills, and have invested in a range of local training initiatives.

4.6. What sites are suitable for shared-services centres?



Most desirable – because easiest to manage, though not necessarily cheapest in the long run – are naturally an existing site owned by the company or at least an existing building. And of course, any rational company is going to review its current resources before investing in more real estate.

Nevertheless, nearly a third of respondents would choose a new or purpose-built building. Again, this perhaps parallels the early development of contact centres noted above, which soon realised that maximum efficiency meant locating a building that suited their specific needs.

5. PULLING IT ALL TOGETHER

The first chart below brings together all the criteria for the location of shared-service centres. The second answers the most important question of all: do they work?

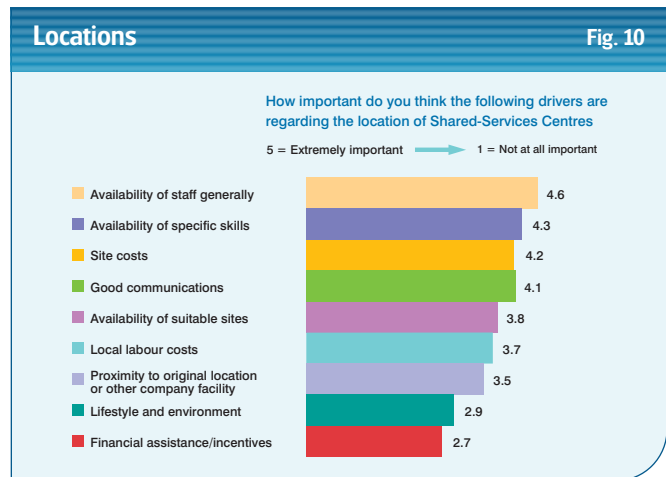
5.1. The ideal location

Not surprisingly, staff availability, skills availability, site costs and good communications emerge as the front runners.

Close behind come the availability of suitable sites and local labour costs.

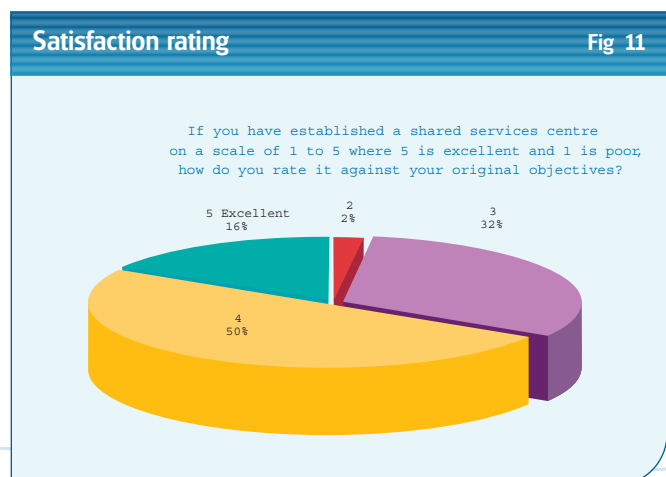
So a good location will be one where the staff with the necessary skills are easily available at comparatively low cost, and where there are suitable sites with good communications – again, at comparatively low cost.

All these things matter more than proximity to original location or other company facility (though this still receives a rating above 3), lifestyle, environment and financial help.



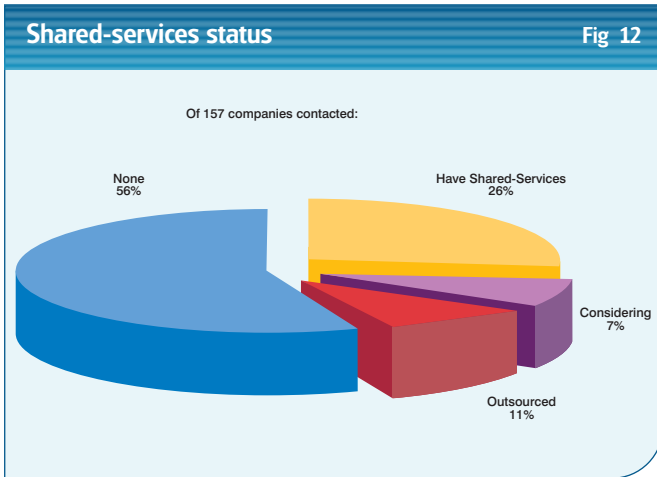
5.2. Do shared-services centres work?

On a scale of 1 to 5, where 5 is 'Excellent', two thirds of the sample rated their satisfaction level as 5 or 4. Almost a further third rated their centres as average in achieving the original objectives.



But if that is the case, and the advantages are so clear and the level of satisfaction so high, we might expect the solution to have been adopted almost universally. In fact, that is not the case ...

5.3. How deeply has the shared services approach penetrated?



For this final chart, respondents were not restricted to companies with shared services already in place or under consideration. The sample represents all companies.

In January 2003, a third of the sample were taking shared services very seriously. Over a quarter had already implemented the process and a further 7% were actively considering it.

11% had pursued an alternative approach and were outsourcing the provision of business services. (For some companies, this may well be the right approach, though other questions in the research identified worries about loss of control, and doubts about the cost.)

But though, as we have seen, 66% of the enterprises with shared-services centres were enthusiastic about them, 56% of all companies had still to implement them or even consider them, implying considerable scope for future growth.



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Independent surveys commissioned by
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**Business services centres in major companies:
JSGL Partnership/Benchmark Research**

Tees Valley Contact Centres: NWA Social Research



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