

HOV Services: Results, not labor arbitrage, key to offshoring success

SCOTT M. SHAFER is the executive vice president of Sales and Business Development with HOV Services (HOVS), a leading global business process outsourcing (BPO) and knowledge process outsourcing (KPO) provider with more than 12,500 employees and operations in the US, India, Canada, China and Mexico. Shafer began his career with Electronic Data Systems (EDS), followed by five years in a key technology leadership role at Fiserv during its formative growth years. He came to Colorado in 1993 after being recruited back to EDS as a division vice president. Seeing the trends in globalization, Shafer launched Sherpa Business Solutions, a global BPO company in 2002. Sherpa grew to more than 1500 employees and was acquired by Firstsource Solutions Limited in March 2005.

For small to mid-sized US companies, the decision to offshore usually does not come easily especially given the pros and cons that have to be weighed and the likely need for a global partner. Scott Shafer framed some of the considerations for businesspeople and faculty attending the KPMG-University of Colorado Denver Global Enterprise Institute "Opportunities and Risks of Global Expansion."

Business Process Outsourcing (BPO) is an umbrella term used in this article to describe business process functions such as call centers, voice/non-voice processes, IT enabled services, transaction services, collections research and other back office functions.

Choosing a global partner

"The right global strategy and partner can create opportunities to foster innovation and better differentiate your products and services by providing additional value to your customer base and potentially opening new markets," said Shafer.

However, there are considerations that must be weighed when moving forward with a BPO partnership, he said. "Think through the value gained by implementing your global strategy and its objectives. Really know your global partner and fully understand the nature of your business that will be conducted offshore. Look for reputable suppliers who bring innovation and value versus those solely peddling

low-cost services, and absolutely focus first on providing value to your customers."

When labor arbitrage is the primary reason for the selection of a call center partner, "the per-person cost of the call may be less but if it takes three times as long to do a call, you've lost any economic advantage let alone the cost of unsatisfied customers due to poor accent utilization and the scripting and mapping of the calls."

"One of the cornerstones of how HOV Services creates competitive advantages for clients is through process excellence (PE) practices, which are deeply embedded in our corporate culture. HOV Services has a dedicated process excellence team that uses Six Sigma, a measure for continuous improvements in operations that deliver cost, performance and/or service benefits and new ideas with every engagement," said Shafer. "These initiatives help differentiate our business while helping clients differentiate their offerings."

HOV Services' client list is comprised of many small- to mid-size companies in addition to a sizeable FORTUNE 500 account base. "More than 85 percent of our revenues come from existing clients," said Shafer. The company's business model accounts for this success. "The better job we do for clients, the more work they give to us."

The way that "better job" unfolds for healthcare clients, for example, is to focus on completing the entire lifecycle of a claims transaction using Six Sigma quality methodology from the time the claim is received in the mailroom in a US location to the time it is adjudicated either in the US or globally, depending on the client's requirements.

With its emphasis on providing value rather than on pursuing labor arbitrage, HOV Services continuously tracks feedback from clients and end-user customers to ensure world class delivery and client satisfaction.

Location, location, location

There are two factors to consider when deciding where to locate an offshore operation. The first is the country, the second is the city. "In India, Western companies tend to favor Tier 1 cities like Bangalore, Delhi and Mumbai. These cities have international airports, Western hotels and great infrastructure; you live in somewhat of a

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'Western bubble' when you're there."

There is a more challenging side, however. "In those cities the war for talent can be vicious with extremely high attrition rates and salaries growing well into double digits every year," said Shafer. "If you establish an operation in a major city, the cost containment and continuity of talent issues can be difficult to address."

HOV Services mitigates this problem by locating in Tier 2 cities. "Although they are less modern and most likely do not have an international airport, these cities have substantive infrastructure and less intense competition for talent while providing reasonable wages," said Shafer.

"India is still a very robust area for call center business and for collections. For certain segments of our collections business, our performance in India is significantly better than the United States. India tends to do well in collecting low balance, early stage of delinquent debt where willingness to pay is higher. Conversely, later stages of collections in the US with higher balances are serviced more efficiently in the US. By right shoring collections between India and U.S based on type of debt, we are able to deliver significant value for our clients."

The falling dollar

According to Shafer, "The impact of the falling dollar is huge, contributing to less attractive economics in countries such as Canada and Ireland, which were once hot destinations for US companies. How does this alter the picture for HOVS' global operations in the long term?"

"HOV Services continues to very selectively look for companies that add value to the company in strengthening its global model," said Shafer. "Our company has experienced robust growth over the years and the trends in offshore outsourcing appear to remain strong for the future." ♦