

A d v a n c e d T o p i c s

Lessons from the Last Recession

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We have all heard the adages that those who are ignorant of history are condemned to repeat it and that business cycles are like pendulums. There is a lot of wisdom in an adage and, when listening to today's business news, we should keep this advice in mind. This applies especially to those of us who are old enough to remember the years between 1980 and 1982, 1990 and 1991, and 2000 and 2003 as we feel our economy slipping toward a recession.

We are starting to see some of the same mistakes in contact center decision-making we saw beginning in 2000. Company management is known to repeat mistakes, and it appears that this is happening now. The purpose of this article is to highlight some of the themes and particular items we saw last time, and fear we will see again during this current business slow down.

Theme #1: During a recession, there is a higher potential for companies to make strategic mistakes.

During the 2000 recession, most major issues we noticed were strategic in nature. Tactics and tactical decision-making do not have a severe impact on the health of the company. Those decisions can be undone. Unless a tactical blunder undermines a strategic pillar, like the unwritten covenants between management and phone agents (e.g., getting rid of some small but traditional company perk), it is unlikely a tactical decision will cause real financial headaches.

However, strategic mistakes become much more common in times of high anxiety and high variability. In times of uncertainty, most new decisions are strategic in nature like:

- Should we relax service goals or should we cut headcount? How much? Which groups? Which centers?
- Are we expecting changes in our volumes or handle times? How much? Which direction?
- Should we outsource? Which business functions should we outsource?
- Should we stop cross-sell functions, or should we realign our contact centers for economies of scale and not quality? Should we focus on "shareholder value" instead of "customer quality" — moving toward cost cutting and away from quality service?

Answering these strategic questions wrong will lead (and have led) to huge cost and service issues. In fact, our strategic mistakes will directly result in tactical headaches, as strategic mistakes almost always lead to day-of operational failures. In general, strategic mistakes begin to show themselves at 9:01 AM, Monday morning.

Item #1: Should we relax service standards or cut headcount?

During the 2000 recession, and during the current one, our first line of attack seems to be to reduce service and cut headcount. What is interesting is that, for many executives, these two items are not necessarily the same thing. Many non-operationally minded folks think that they can reduce staffing and yet service can remain constant, with some management ingenuity. Most often, this is wishful thinking.

The common blunder to avoid this time around is cutting too much staff. Certainly costs must be saved, but at the same time it is very easy to get into the fix where occupancy runs high enough to affect attrition and quality, or service drops enough to affect customer satisfaction or revenues. During the last recession, there were several horror stories of companies cutting staff past the point of the possibility of medium-term service recovery.

Similarly, the pendulum will someday soon swing the other way and, in much the same way that we need to plan for cost cutting, we need to also plan for volume growth as the economy improves. The 2000-2001 economy improved faster than expected and several companies were caught behind the growth curve. This caused financial and operational troubles, even as we were coming out of the recession and when opportunity for real business growth was high.

All of this can be avoided by carefully planning for risk (which we will discuss below).

Item #2: How do we plan for changes in volumes?

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One thing is certain in a business environment like today's: expect your volumes to change. A lot. Business uncertainty breeds operational variability. However, there are better ways to manage this uncertainty than how we handled it during the last recession.

Last time, we did our best to determine the reduction in calls we could expect, and we planned accordingly. There were two big and common mistakes in this thought process that we made then that should be avoided now.

1. Picking a single volume number and going with it. Uncertainty means that we do not know what will really happen. By pretending that we do and developing a single plan based upon a single best-guess forecast, we can find ourselves with the same problems that we discussed above, like having too many or too few agents in our operation. The trick is to evaluate the various combinations of likely volume scenarios and resulting staff planning decisions. We must plan for both what we think will happen and what happens if we choose the wrong volume forecast. By doing this, we are adding the element of business risk to our decision analysis, which by extension will improve our decisions and operational performance.
2. Not zagging after the zig. The second mistake that companies made during the last recession was to put forward a plan and to live within that plan. Clearly, a changing environment means that there will be changes to our original assumptions! The industry best practice is to closely monitor (at least monthly) all important business drivers (like volumes, attrition, and shrinkage) and be ready to reforecast these drivers in order to make the appropriate staffing decisions. Similarly, variance to plan is very likely and can be viewed as an early warning signal that alerts of changes in the business environment. If you are not monitoring your performance drivers and acting upon this new information, how will you know the recession is over?

We have better technologies available to us for planning this time and we should use the power of automatic scenario evaluation available in a strategic planning system to avoid these serious pitfalls.

Item #3: Should we reorganize or outsource more or migrate to cheaper channels?

Outsourcing:

A direct result of variability is the need to outsource if we miss Item #1 and Item #2 above. Simply by understaffing there will be a need to find resources quickly. Similarly, variability will mean that there will be a short term need for "overflow" agents. This need can be expected during times of high variability — especially if your capacity planning function is less developed and your plans are not well worked through.

But the real question is whether now is the time to outsource purely on the basis of cost. Like the economy, outsourcing as a trend is somewhat cyclical. There were many stories in the media about the outsourcing of jobs during the last recession, but internally, we heard much about those same jobs coming back to the States as a method of improving quality once the recession had passed.

The lesson from 2000 is that it is very important that the business functions that are outsourced (to offshore centers) be well thought through and analyzed. Too often, companies outsource too many core processes and those companies took a perception hit that American jobs were being sent overseas. During rough times, there is a huge potential for reputation risk.

At the same time, as recent news out of India demonstrates, there is international political risk associated with moving operations overseas. These need to be weighed with the cost savings expected.

Reorganization:

General reorganization for economies of scale purposes is also worth analyzing. However, the value associated with the economies of scale of phone agents are hard to come by. Simply, the operational economies of scale we gain by adding phone agents are mostly exhausted at lower volume thresholds than we might expect. There are, however, economies associated with consolidating management and reducing the infrastructure costs of combined groups, but I expect that these are also not big cost savers for most companies. Again, these are strategic decisions that can be quickly analyzed in your long term planning process.

On the other hand, many companies used the last recession to take calls from disparate locations (like branch locations or retail stores) and place them into contact centers. This, of course, garnered economies of scale for the processing of those phone contacts. But did the companies actually save money? Only if they were able to reallocate the branch resources to more value added work or keep fewer employees in the branch. That is likely a function of the branch employees' other tasks, and whether they could be handled with fewer employees given the reduction in phone calls.

Multi-channel:

Finally, a mistake that many organizations made during the last recession was the propagation of other channels in order to bring costs down. While it is certain that the long term trend has supported multi-channel as a cheaper way of servicing customers, it is also certain that these were not short term fixes. It is

likely that the start-up costs of new channels and the time that was required to implement such organizational and technical changes long out-ran the previous recession.

One last point about multi-channel servicing as a cost cutting move: there usually turns out to be less short term value than you would expect. Customers often use multiple channels as ways of contacting service centers several times over — for the same customer issue. Multi-channel servicing often means more contacts in aggregate. Couple this with the obvious phenomenon that multiple channels mean that simpler contacts are self serviced, but also that more complex contacts are serviced by phone agents, and call center costs may be higher than expected in this new environment. Multiple channels often mean that your phone agents' average handle times increase as the more difficult service problems come their way and the “easy” calls disappear (which is a good thing).

Theme #2: Decentralized “planning” can skew performance.

A cousin to the issue of strategic missteps is that management and others, from a variety of organizational disciplines, can make decisions that directly and adversely affect center performance. It isn't only an individual executive's fault if there are service disruptions.

During times of economic downturn (and when running lean operations), unplanned activities have much more of a dire impact than during times of plenty. Other decision-makers, be they marketing, legal, your agents, or even your customers, can affect your service more dramatically during a recession. During the last recession we heard stories about:

- Companies cutting a random percentage of their workforce. Top-down decisions, made with no operational analysis, often are an operation's bane. We heard of an industry that chose to cut staff by the uniform amount of 20% during the last downturn. Were they right? Probably not.
- Companies reallocating operations budgets (e.g., through a hiring freeze) toward marketing or other contact-generating functions. We heard terrible stories of hiring freezes accompanied by increases in marketing activities — which for a contact center network means certain chaos and operational headaches. More calls without more agents usually will bring agent burnout, attrition, more burnout, more attrition, and...
- Attrition being radically altered. In the absence of the call center death spiral of burnout and attrition, there is often the opposite problem: in times of tough economies nobody quits, stagnation occurs, service suffers, and customer satisfaction takes a hit. It is never good for your agents to be stuck in a job they do not want and tough times often drive this unhappy situation.
- Customer rates and terms being altered to drive revenue (and contacts) or companies charging for previously free services (e.g., airline's checked baggage policies). When there is more uncertainty with the products and services that you offer, you'll get more (and more difficult) calls from your customers to sort out your policies. Similarly, even if you keep your product and service exactly the same you can still expect additional clarifying contacts if your competition's product changes.
- Overall uncertainty can drive call volume for some verticals. When the economy itself is a driver to your product offering (e.g., brokerages), you can expect large volume swings

All of this describes a few of the reasons for the many uncertainties we face when running an operation as complex as a contact center network. In times of financial stress these problems are amplified.

Theme #3: Planning is much more important in these difficult times.

Both of the previous “themes” lead to a specific truth: during tough times, while more difficult, strategic planning becomes much, much more important. Changes in the operating environment, whether internally or externally caused, make your ability to plan and react critical. Planning is a decision-making cycle (see the article *The Contact Center Decision-Making Cycle* in the Summer 2008 issue of this newsletter), comprising of monitoring performance drivers, re-forecasting if necessary, making decisions about the business response to any changes, and implementing the decision. Our ability to perform this process, as a normal matter of business course, will determine whether the organization can be consciously competent during these tough times.

In the absence of being able to accurately and quickly analyze changes to our operation, decisions will be made without any analysis. In the end, a decision always has to be made, even if it is to do nothing, and even if it is the wrong decision. But, better decisions come from a better planning and analysis process.

Planning well requires an automation and optimization of your planning process. It requires you to have the ability to forecast, the mathematical technologies to determine optimal staffing levels and hiring plans, the ability to simulate your center network to determine expected service performance, the automation to quickly perform sensitivity and what-if analysis, and the ability to monitor your operation through variance analysis. Speed and accuracy of your planning process is the key.

We are in for tough times but history does not need to repeat itself; many of our big mistakes during the last recession can be avoided by doing some solid analysis and quick and accurate planning. And then doing it all over again.

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