Cheaper, simpler, better for customers: Outsourcing without trade-offs

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Instead of "insourcing" or "reshoring," a revamped approach to outsourcing can improve customer experience, explains Vodafone Spain's Carmen López-Suevos Hernández in an interview.

As a key player in Spain's intensely competitive mobile-telecommunications market, Vodafone Spain had long worked with vendors in both Spain and Latin America to support its customer-service operations, until they were almost fully outsourced. However, as price competition increased and customer expectations rose, cracks started to emerge in the model. Managing a large number of vendors, often working on relatively short-term contracts, made customer-experience standards difficult to achieve—let alone to improve as the market changed. Yet despite leaders' concerns about the company's competitive position in service quality, relentless pricing pressures made moving the work back in-house a daunting prospect.

Rather than abandon outsourcing and offshoring, the company decided that the concepts needed a complete rethinking. Carmen López-Suevos Hernández, recently appointed Vodafone Spain's director of customer experience, led a team that completely restructured the way the company's outsourcing works. Three years later, the company raised its customer-satisfaction ranking from last among major Spanish mobile providers to first, even as operating costs fell by double digits.

López-Suevos spoke with McKinsey's Raffaella Bianchi and Christian Johnson from her office in Madrid.

McKinsey: *It sounds as though outsourcing has played an essential customer-operations role for Vodafone Spain. How has the model evolved over the years?*

Carmen López-Suevos Hernández: Although outsourcing has always been strategically important for us, historically our approach to it was opportunistic. Each major subunit within customer operations, such as the customer-care help desk or customer retention, managed its own vendor relationships. As a result, across the whole customer-operations group, I'd estimate that we were working with at least ten major customer-operations vendors with dozens of different sites all operating very differently.

McKinsey: *What caused the fragmentation?*

Carmen López-Suevos Hernández: Initially, much of our outsourcing focus was on supporting rapid growth. But as a pricing war started to take hold in Spain after the 2008 financial crisis, cost became the overriding concern. Every subunit within the company was making practical decisions to try to rein in costs, moving contracts from vendor to vendor or from site to site, all in an attempt to stay within strict budget limits.

McKinsey: *What effect did that have on customers?*

Carmen López-Suevos Hernández: Our customer-experience scores were the lowest among the major mobile providers in Spain. Because we resolved comparatively few customer problems in one call—our "first-contact resolution" rate was low—our call volumes were growing. That meant our costs were actually increasing despite our efforts to control them.

McKinsey: *How did vendors find working with Vodafone Spain at that time?*

Carmen López-Suevos Hernández:
Very difficult. The intense focus on cost meant that the governance model for our vendor relationships was almost entirely transactional, emphasizing volumes and fixed prices above everything else. Annual negotiations were very tough; vendors disliked the constant price pressures.

Moreover, vendors that had multiple contracts with us found it was like working with different companies. They could never be entirely clear on what our priorities were, because there was very little coordination among different subunits working with the same vendor.

It all added up to a black box, both for the vendors and, to be honest, for us as well.

McKinsey: *How did you start changing these relationships?*

Carmen López-Suevos Hernández:
We realized that we had to refocus on the quality of service that the vendors were providing, not just cost. That meant reevaluating our relationships with the vendors and, most important, with the frontline agents who were serving our customers.

Our goal has always been to reduce our overall cost to serve. On paper at least, one way to do that is to reduce the cost per call, which is what we had been trying to do in the past. But when you squeeze your vendors on price, they squeeze back, usually on the people side of the equation—reducing the qualifications of the people they hire, the amount of training and coaching people get, the ratio of team leaders to team members, and the attention given for development and retention. As a consequence, attrition increases while people's skills fall—and you resolve fewer calls on first contact, damaging

service quality. For us, it meant that whatever cost benefit we earned up front we ended up losing in the end because the volume of calls kept rising.

The other way to reduce overall cost to serve is by reducing volume. Better-quality customer service would let us resolve more calls the first time, so the number of calls would fall. We could then allow a higher price per call, which vendors could reinvest in further quality improvements—and we would still come out ahead.

But to make that switch, we needed to change a lot about how we operated. And we needed to change our mind-sets about the role of vendors, our performance expectations of them, and how to interact with them on a daily basis.

McKinsey: *So this is more than just eliminating a few low-performing vendors.*

Carmen López-Suevos Hernández:
Much more. We certainly needed to simplify, to reduce the number of vendors and sites—and become leaner, more effective. But first we needed a new working model.

Fundamentally, in the end, we wanted contact agents who could turn customers into promoters for us, not just handle calls.

McKinsey: *That's a significant step up in the capabilities you needed, no?*

Carmen López-Suevos Hernández:
Yes, and we knew that we needed vendors who could work with us as partners along this journey; not all of them had that capacity. But the implications were much broader than that. For example, in the past, our managers evaluated vendors based only on a narrow set of efficiency-based key performance indicators [KPIs]. Changing the focus to quality meant that we needed a

whole new set of metrics. Given that the vendors' personnel are the closest people to our customers, we needed them to be measured and rewarded on quality metrics, and to be empowered to provide better quality to clients.

McKinsey: *So you had to share a lot more about your business with the vendors.*

Carmen López-Suevos Hernández: And we had to change our mentality about the vendors' role, understanding that our customer relationships were too important to reduce to a yearly transaction based mainly on target cost per call. We needed these vendors to be our partners, and we needed them to understand that we were serious about treating them as partners rather than just fighting them on economics.

McKinsey: *How did the change from transactional to relationship-based vendor management play out with respect to structuring the customer-service operation?*

Carmen López-Suevos Hernández: Our new strategy centers on a smaller number of highly capable vendors. For most major areas, we identify a "champion" and a "challenger" to foster healthy competition and improve performance. We also worked with the vendors to articulate guiding principles for reducing the number of locations, again with the goal of improved customer experience.

On our side, we created a centralized, commercial-operations vendor-management team, which helps ensure alignment in working with each of our vendors. All of our customer-operations areas now participate in an annual vendor meeting, during which we spend a whole day with our vendors in refining our vendor strategy. The results are then the basis for monthly meetings, which each area conducts together with its vendors to evaluate the contract process. The data and expectations

cascade down to the weekly and daily meetings that monitor ongoing performance, so everything happens in a smooth and coordinated way.

McKinsey: *How has the day-to-day working environment changed?*

Carmen López-Suevos Hernández: Almost everything is different now; the connections between Vodafone and the sites are much tighter. We revamped the vendors' KPIs so they align more closely with our service-quality strategy. Then, to help the vendors monitor the same metrics for their agents, we built a database that the vendors can independently see and manage in real time, rather than waiting for reports at the end of the month.

In parallel, we developed a range of analytic tools to help the vendors manage their people more effectively, such as speech analytics that help the agents resolve questions more quickly and thoroughly. Together we've defined a new continuous-improvement methodology as well, using voice-of-the-customer data and frontline agents' experiences. We provide the vendors with the customer-feedback data we gather, so that they can improve their policies and processes. And in turn, their frontline agents make suggestions to us on what we could change in our processes.

Finally, each site now includes a Vodafone representative who is evaluated on exactly the same metrics as the vendor. That person has every incentive to help the vendor improve its performance, and can also see day to day what is working well and what could be improved.

McKinsey: *What does this mean for the agents?*

Carmen López-Suevos Hernández: We pay much closer attention to their development, because high attrition rates are not compatible

Carmen López-Suevos Hernández

Carmen López-Suevos Hernández, Vodafone Spain's director of customer experience, has more than 20 years of experience in telecommunications. Before assuming her current role in late 2016, she was Vodafone Spain's consumer care director, and previously held a variety of leadership roles with the company in customer management. She started her career as a consultant at American Management Systems in European telecom projects, and later joined the fixed-line operator "R" and the mobile operator Yoigo. She holds a degree in physics from Complutense University of Madrid and an executive MBA from the IE University, Madrid.

with high-quality customer service. We therefore set clear standards for all sites, regardless of vendor, for building employees' capabilities, providing adequate supervisory support, and designing career paths.

McKinsey: *How did you persuade the top leadership team to support this transformation?*

Carmen López-Suevos Hernández: Look, this process won't produce results in a month. My belief is always that if we do the right thing, we will get the results we want—but it takes some patience.

Our CEO is very focused on customer experience, so that was a good starting point for us. But we also needed the executive committee's support, so that other functions, such as IT and marketing, would make it a priority to help remove potential barriers to reducing our call volume. We were therefore very clear with the executive committee: "These are the facts about our service and our costs, and this is what it will take to fix them for the long run." We knew that some of the consequences would be painful, and we made sure the committee members understood our reasoning, so that they could explain it if asked.

The most important shift was the concept of investing now (in the form of a higher price per call) in order to allow vendors to work on quality, so that more calls could be resolved the first time. The committee had to understand that the price per unit might not be as low as it once was, but our total costs would fall in tandem with the call volume. They and the CEO became real promoters of this program.

McKinsey: *What was the vendors' response to the new relationship model?*

Carmen López-Suevos Hernández: At the beginning, some of them were concerned about the added complexity: it was no longer a simple matter of calculating the number of employees needed to handle a given volume of calls. Now they would have to change their mind-sets and focus their actions around quality.

Early successes built trust. One of the first areas we targeted, high-priority customers, achieved a quick quality turnaround. The vendor was very pleasantly surprised—and its experience showed the other vendors that the changes would make them proud to be working with Vodafone.

McKinsey: *What do customers experience today, compared with before the transformation?*

Carmen López-Suevos Hernández:
There are actually four major changes that you should feel as a customer, starting with personalization. That doesn't mean that the same agent will work with you every time, but it does mean that the agent will know more about your situation even as your call arrives. So, if you ordered a new handset two days ago, the agent will see that and be prepared to give you a status update on the order. If there's a problem, that agent is responsible for resolving it: one customer, one issue, one agent, from beginning to end.

That leads to the second change: proactivity. The goal is for the agent to be able to resolve your question 95 percent of the time on first contact. But if that isn't possible, the agent will call you back; you should not have to call again.

Third, you should never have the same problem twice. Customers can understand a mistake, but not the same mistake two times. If you call us with a billing question one month, we will contact you the next month to make sure the question is still solved.

The fourth and final change is "no escalation." Customers should not have to wait for several levels of approvals, so a frontline representative is now empowered to solve all customer issues. The only limiting factor is that they are subject to auditing.

And one of the major benefits of better service is that empowering our front line in this way has helped reduce the number of refunds we have to give in order to retain our customers.

McKinsey: *What parts of this journey have been the most surprising or rewarding to you and your team?*

Carmen López-Suevos Hernández:
The numerical results have been more than we expected: our first-contact-resolution rate has increased by more than 30 percent, and our call volumes are down by almost 50 percent. But to me what's truly rewarding is that vendors and frontline agents feel proud of working for Vodafone customers, of what they're doing and what they deliver. Agents will tell me that they want our customer-satisfaction score or our first-contact-resolution rate to rise even higher. I think many people would be surprised to hear that from a vendor.

McKinsey: *How has this experience changed Vodafone Spain's perception of outsourcing?*

Carmen López-Suevos Hernández:
I've heard many people say that you shouldn't outsource for core operations, because it will never be the same culture and the same quality results. But we've worked hard to make sure that it's one culture, not two, and what our vendors are achieving upends the stereotype of an unbridgeable gap.

We wanted everyone to feel they are part of Vodafone, and our color is red, so our vendors are our Red Teams. We wanted our vendor personnel to use our products and services, so we gave all our Red Team community the same discount we give our employees. We include them in the same concerts and sporting events that we host. And even little things, like sending everyone an SMS on their birthday—that's a big change from when we were only negotiating on price and had no idea who the agents were.

McKinsey: *When did you sense that the organization had really changed?*

Carmen López-Suevos Hernández:
It was the first time I overheard vendor people

saying "we," meaning all of us together, and not "you" referring to Vodafone and "we" referring to the vendor. And then I heard people from Vodafone and our vendors sharing pride in achievements they made together, such as a recent breakthrough in customer-satisfaction rates among our highest-value customers.

McKinsey: *Now that you're about three years into the transformation, is there anything you think you would do differently if you were starting the process today?*

Carmen López-Suevos Hernández: At the beginning, people naturally hesitate, wondering if people can make the change. My advice: don't be afraid. Especially right now, with so much upheaval—the pressures from digital and from new business models—the world is more open to change than just a few years ago, and keeps demanding higher and higher quality.

I also think this experience illustrates a larger lesson about how business is evolving: it's more important than ever to have very good people and to invest in people. We decided to go for better skills and a lower volume of calls, and I'm sure this will happen more and more. Already chatbots can take care of a lot of really basic transactional work, so what people will handle will become more complex.

That means you will need to give people a lot of empowerment, with an attitude that you work jointly with them. And you will need very good managers as well, with skills in attracting and retaining high performers. ■

Raffaella Bianchi is an alumna of McKinsey's Milan office, and **Christian Johnson** is a senior editor in the Hong Kong office.