

## **HEROtsc's Innovative Added Value Services Tailored to the Needs of the Financial Services Sector**



**Paper 1, of a Series of 3.**

**“Carve Out” – the acquisition of existing in-house Contact Centre assets and people under TUPE.**

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## 1. Introduction

This document is the first of 3 papers describing our class leading service offerings to the Financial Service Markets in outsourcing.

1. **“Carve Out” – the acquisition of existing in-house Contact Centre assets and people under TUPE. Covered by this paper.**
2. **Customer Retentions – raising your current conversion rate performance by at least 2% points supported with an aggressive risk and reward scheme, proving our commitment and ensuring we deliver.**
3. **Debt Collections - raising your current conversion rate performance by at least 2% points supported with an aggressive risk and reward scheme, proving our commitment and ensuring we deliver.**

## 2. Benefits

### Cost Efficiencies

As can be seen from this paper, the range of savings available is significant with run rate savings of 40% readily achievable. Cost reduction through outsourcing cannot be ignored.

### Flexibility

Partnering with an outsourcer affords increased levels of flexibility in terms of ramping up and down advisor headcount in order to address fluctuating levels of call volumes that occur throughout the year. This is a particularly challenging issue for contact centre managers, in terms of accurate advisor scheduling as well as dealing with the cost of managing people to work unsociable hours and during certain times of the year.

### Quality

High operational quality levels are also rightly acknowledged as a key benefit of working with outsourced Contact Centre specialists, both for call management and tracking customer feedback. Both these aspects of operations are crucial for a successful CRM strategy, with regard to knowing the customer better through data mining and ensuring a positive experience for an organisations customers (crucial to ensuring high levels of end-user satisfaction). These key result areas are becoming paramount for organisations as a key business differentiator. Decreasing CRM budgets make accomplishing these goals difficult in-house. Operational excellence to gain a full view of the customer will emerge as a key differentiator for organisations, and rightly so.

The reduction of overheads for any organisation is an excellent strategy for maintaining and improving margins, HEROtsc's proven Business Solutions allow your organisation to take advantage of removing non-core overheads.

**This paper has been compiled to outline the potential scenarios and the value drivers that arise to both parties in such transactions.**

### 3. Carve Out

#### 3.1 Background

We are keen to add further capacity and bandwidth to our current estate and are specifically looking to achieve this through the acquisition / take over of in-house contact centres (“Carve Out”).

Having undertaken several Carve Out transactions in the past, we understand the mechanics and success criteria with the track record to deliver value. A case study has been attached at the end of this document within Appendix A, detailing a successfully completed Carve Out.

The following are considered in the following sections:

- Carve Out scenarios
- Outsourcing commercial value drivers
- Carve Out value creation

#### 3.2 Carve Out Scenarios

A Carve Out can take any combination of the following categories:

##### **Property (assumes leased property)**

- Sublet space to HEROtsc
- Transfer of lease to HEROtsc
- Sublet back part of the site to continue to operate some services in-house

##### **Assets**

- HEROtsc acquires site assets at an agreed value (ideally close to net book value to avoid accounting write down)
- Assets are transferred to HEROtsc with value reflected within service agreement
- Assets are leased to HEROtsc as part of sublet arrangement

##### **People**

- All or some of the staff are transferred under TUPE Regulation to HEROtsc
- All or some of the staff are retained and either operated from the site or an alternate location
- All or some of the staff are made redundant

A Carve Out transaction will see a number of the above factors linked to an ongoing Service contract commitment between the parties.

#### 3.3 Outsourcing Value Driver

The commercial benefits for outsourcing are often put into the following categories:

##### **People**

- Outsourcing people costs (salary and benefits) are generally substantially lower than in-house.
- Internal head count is reduced

##### **Productivity**

- Outsourcing productivity levels (Productive: Paid ratio) are usually significantly higher than in-house, being driven both by culture and IT systems that allow focus on this area;
- Similarly an outsourcer will generally be able to deliver resource closer to the required profile than in-house;
- Both of the above factors reduce the number of people required to be employed and hence the overall cost of service.

**Property**

- Outsourced property is generally at lower cost locations, with lower cost fittings and fixtures;
- Outsourced facilities are usually run with a lower overhead structure in relation to facilities management and IT support through the ability to leverage existing estate functions.
- A combination of the above factors drives the direct commercial returns from outsourcing. This ignores the qualitative benefits that can be achieved which will then have indirect commercial benefits associated from improved quality, resolution etc.

**3.4 Carve Out Value Creation**

The value created by a specific Carve Out can vary significantly with the scenario needing to be matched against the outsourced value drivers.

The chart below seeks to depict the characteristics of Carve Out propositions that deliver the maximum return:

**VALUE CREATION**

VALUE DRIVER	LOW	→	HIGH
<b>Property</b>			
- Available capacity	Low		High
- Lease period	Long		Short
- Demographic	Poor		Strong
<b>People</b>			
- TUPE numbers	High		Low
- Outsource required	Low		High
- Offshore required	Low		High
- Cost structure	High		Low
<b>Commercial terms</b>			
- Size of contract	Low		High
- Length of contract	Short		Long

The table above, section 3.4, indicates that in general the highest value will be achieved from a Carve Out transaction, where there is:

- Available capacity to re-sell to other parties;
- The remaining lease period is relatively short providing flexibility;
- The area demographic is conducive to growing the business;
- The TUPE transfer is generally lower to allow lower cost structures to be introduced;
- The requirement for outsource onshore or offshore out with the existing location exists to maximise efficiencies;
- The Commercial terms allow for substantial outsourced volume and contract tenure to provide the best possible terms.

Typical returns at either end of this scale can be:

Savings period	LOW	→	HIGH
- Years 1-3	5-10%		15-25%
- Year 3 run rate	10-20%		25-40%

As can be seen from the above table the range of saving available is significant with run rate **savings of 40% readily achievable** where the value drivers are largely consistent with the above table.

### 3.5 Summary

**Carve Out transactions have the opportunity to deliver a win – win by:**

- Enabling a very short (almost immediate) cost saving opportunity for our potential client;
- Reducing staff and associated burdens from the potential client;
- Providing “instant” access to new capacity for HEROtsc to facilitate growth;
- Minimising, where possible, the people impact of a restructuring process.

The value created from such transactions can vary significantly with scenarios developed to meet a specific appetite.

HEROtsc are looking to work with partners in Carve Out transactions that deliver for both parties.

# Appendix A. Capability Case Study – Carve Out

With over 16 million UK customers, client is one of the largest top 50 companies in the UK and with 150 million customers worldwide is a global top 500 company.

## Background

- Client had excess capacity and a site which was significantly under utilised
- In 2004, HEROtsc were looking for additional capacity and approached the client with an innovative proposition to carve-out of one of their UK locations.
- HEROtsc were an existing partner of the client for the previous 5 years, operating from 2 centres with over 500 FTE.

## Client Objectives

- Remove excess in-house capacity to remove overall operating costs of service;
- Partner with outsource provider capable of delivering flexible, large scale solution
- Achieve differentiation in the marketplace through customer service capability
- Secure long term relationship founded on reduced operating costs over time

## Carve Out Characteristics

- Over 300 employees transferred to HEROtsc
- Services includes, Customer Service, Email and Tech Support
- 50 seats rented back to the client to continue to operate sales function for transition period
- Site assets acquired from the client at NBV
- Lease transfer
- Site seat capacity at 600+, with circa <40% utilisation at transfer
- Strong local demographic for contact centre employment
- Contract commitment period provided within minimum FTE levels

## Benefits achieved

### To client

- Circa 30% reduction in client operating costs
- Greater than 10% efficiency improvement
- Re-focussed operational solution

### To HEROtsc

- Revenue security through contract commitment
- Additional capacity for growth
- Broadened service capability



## Results

- TUPE transferred 300+ staff
- ↓ 30% client operation costs
- ↑ 10-12% efficiency improvement

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**HEROtsc are innovators in the design, development, deployment & delivery of insightful customer management solutions.**