



29th Voorburg Group Meeting

SPPI on Call Centre Operation Activities

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1. Introduction

This paper discusses the challenges in pricing the output of the Call Centre Operation industry. It will focus on the market conditions for the industry and how this creates challenges in the pricing of Class 7294 – Call Centre Operation for the Producer Price Indexes. The three main challenges include:

- Volatility of price movements
- Changes in the quality of service provided
- The low market share concentration of the industry

2. Standard classification structure

In the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006, Class 7294 – Call Centre Operation belongs to the Output of Administrative and Support Services.

The services provided by the Call Centre Operation industry, as classified by ANZSIC, include:

- Telemarketing services which promote clients' products or services, take orders, solicit contributions or donations and provide information
- Answering telephone calls and relaying messages to clients on a contract or fee basis for others
- The units engaged in providing telemarketing services do not own the product or provide the service they represent.

This classification excludes:

- Gathering, recording, tabulating and presenting marketing and public opinion data that may include telephone canvassing services, which are included in Class 6950 – Market Research and Statistical Services.

3. Pricing unit of measure

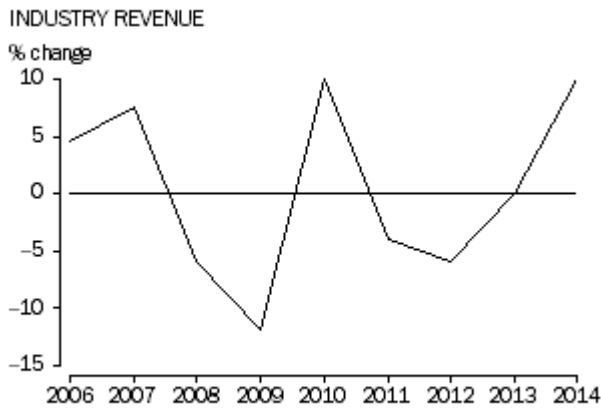
There is no standard pricing mechanism for Call Centre Operation Services. Pricing unit is decided following discussions with providers according to the company's individual pricing basis. Pricing units include price per call, price per hour and charge out rate.

The service provided can be defined according to various parameters. These qualities are established with the provider when they are enrolled into the survey. Each item is specified in detail to ensure that exactly the same item is priced each quarter. This detail may include the length of the call, whether it is inbound or outbound, the size of the client being contacted, the type of the industry or the nature of the query.

4. Market conditions and constraints

The Call Centre Operation industry has experienced considerable volatility over the last 10 to 15 years. Despite a rapid growth phase in the mid-2000s, the industry declined following the global financial crisis due to weaker business spending on marketing. The demand for call centres fell as fewer companies budgeted for these services. A strong Australian dollar restricted industry growth over this period, increasingly exposing local companies to competition from offshore call centres in lower wage countries, particularly India and the Philippines.

The local market has also been hindered by the introduction of the Do Not Call Register, which limits the number of households and businesses accepting calls from call centres. Industry revenue, as shown in the graph below, is estimated to increase at an annualised 1.0% over five years to 2018-19 to reach \$2.5 billion (IBISWorld 2014). This has been assisted by rising business confidence, consumer sentiment and demand from business process outsourcing in Australia.

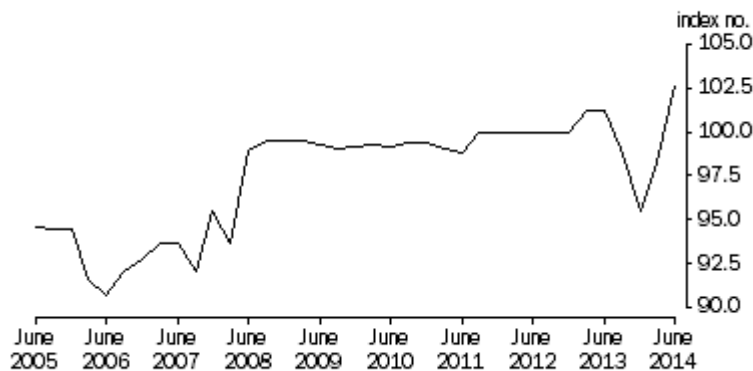


Source: IBISWorld 2014

4.1 Volatility

The Australian Bureau of Statistics publishes a time series for Class 7294 – Call centre operation, dating back to September 2001. Although the time series has experienced periods of stability, it has also shown periods of considerable price volatility. Many companies adjust rates according to volume of calls over a particular period. In general, if call centres are experienced a low period of calls, they will increase rates in order to cover costs.

CLASS 7294 CALL CENTRE OPERATION



Index reference period: 2011-12 = 100.0

These periods of volatility raise challenges for the ABS when analysing whether the movements are representative of the entire industry. PPI are continually working on improving the sample for Call Centre Operation to ensure that it is tracking accurate price movements across the industry.

4.2 Service quality changes

Despite the increasing industry shift towards offshoring Call Centre Operations, many companies have faced some backlash from offshoring operations due to various issues, including language barriers. This has forced

many companies to re-establish operations in Australia to respond to demand for quality customer service. Client businesses have increasingly become more willing to pay extra for effective, efficient, quality and friendly services that result in satisfied customers. In general, firms are realising the importance of the price-quality trade-off in call centre services.

This increase in quality of service is a potential challenge for Producer Price Indexes: does it constitute a quality adjustment when measuring price movements? Quantifying a change in quality of customer service is difficult when, by definition, measuring the price movement of an identical service, ie. Price per 10 minute inbound call.

4.3 Market share concentration

According to a 2014 IBISWorld report, the Call Centre Operation industry has a low market concentration, with the four largest companies accounting for 18.2% of total industry revenue in 2013-14. The industry is highly fragmented, with a large number of small firms. In 2011-12, 58.7% of industry enterprises were non-employing and only 28 firms employed over 200 staff. The industry is trending towards the closure of smaller and less profitable call centres, with revenue growth expected to become more concentrated among larger companies.

The fragmented nature of the industry makes it difficult to create a representative sample. Through purposive sampling, the ABS attempts to collect a representative sample, of mostly large to medium firms, noting the difficulty in capturing the market of small, transitory firms.

5. Summary

Producer Price Indexes face a number of challenges in pricing Call Centre Operations. The market conditions are volatile, which has been reflected in many of the price movements in the published time series. The quality of the call centre service is not always constant, which poses difficulties when assessing whether or not to implement quality adjustments on price movements. The ABS is continually assessing many of these issues to ensure that the sample priced is as representative and accurate as possible.

Sources:

- ANZSIC 2006
- IBIS World (2012–2014)