JLL

Contact Centers

United States | 2017

Technology, M&A and geopolitical uncertainty poised to disrupt contact center industry

JLL Research

Contents

2016 State of the market

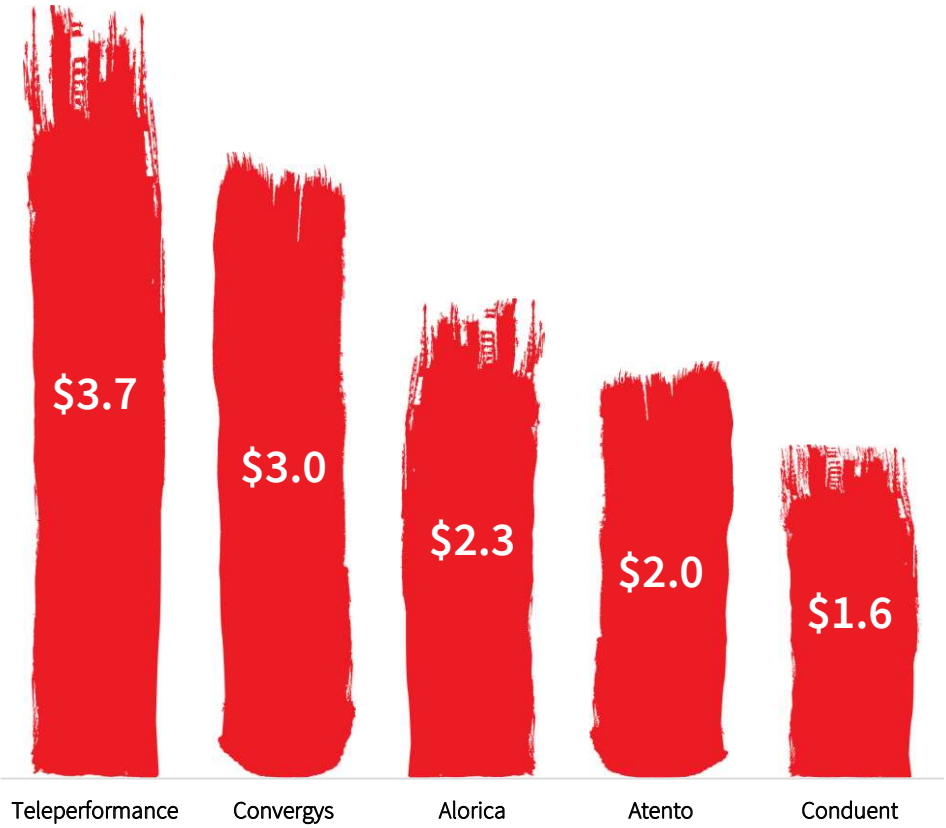
The contact center industry steadily grew across global markets in 2016, outpacing economic growth on a global level. Nationally, the U.S. contact center industry maintained the largest share of the global market, and demonstrated steady 1.5 percent annual growth in contact center spending in 2016. This growth can be attributed to third-party providers diversifying their services in response to clients' demand for exceptional customer service and streamlined business operations. Offerings such as business processing operations (BPO) and customer service were the two largest service expansions.

Third-party providers— *picking up speed*

While approximately 75 percent of all contact center operations are internal to large corporate users, such as Verizon and Bank of America, the remaining quarter of the market is comprised of third-party providers — and that number is only growing. In the foreseeable future, providers are expected to see a strong increase in revenues as corporations turn to outsourcing basic business and analytics functionalities. The leading global contact center outsourcing (CCO) providers include Teleperformance, Convergys, Alorica, Atento and Conduent (formerly known as Xerox/ACS).

Top 5 global CCO providers by total revenue

($ in U.S. billions, 2015)



**Alorica revenue represents acquisition of EGS*

Key third-party contact center outsourcing services:

- **Outbound sales**
- **Inbound sales**
- **Transactions & payment**
- **Performance management**
- **Customer service**

Industry growth stats

- **Total spending on contact centers globally, 2015:**
  $310 billion
- **North American CCO revenues, 2015:**
  $9.4 billion
  up 22.3% from 2013
- **U.S. market, 2015:**
  2,595,990
  contact center employees
  (up 34.5 percent in the last 5 years)

Three key trends to watch in 2017

#1 *Massive industry shift toward digital channels will transform labor, technology and infrastructure*

As consumer and client preferences evolve in the digital age, traditional contact centers are being forced to adapt to the changing tides. End users are often on the move, seeking quick fixes and answers without needing to speak with a live operator. As a result, these end users utilize their smartphones to communicate via social media or other electronic means – satisfying the "always on" culture. To embrace this change, many contact solutions providers have expanded non-voice offerings to now include communication methods via Facebook, Twitter, email, online chat, SMS texting, and other unique channels. On the other hand, consumers may also desire conversations of increasing complexity with representatives on technical issues, giving rise to screen sharing or live chat channels, which allow for more in-depth assistance by walking the consumer through the issue. Savvy contact center operators will need to leverage these digital mediums to remain competitive in a market shifting toward all things digital.

Jury's still out on the impact of automation

These dynamic changes in consumer behavior through 2016 also led contact center users and buyers to invest in automation. One common automation solution is Interactive Voice Response systems (IVRs). Consumers answer "yes" or "no" to a range of questions in lieu of speaking with a live consultant. While automation can prove efficient for the most rudimentary of customer service tasks, specialized or detailed cases still require human interaction. Automation can also be cost prohibitive due to the need for ongoing system adjustments, data analytics and professional maintenance. Human representatives who dissect the unique demands of consumers and react dynamically will remain prevalent in contact centers for the foreseeable future. In fact, in spite of significant revenue growth due to automation, contact center employment grew to 2.6 million employees across the U.S. in 2015 (up from 1.9 million employees in 2010).

Non-voice channel revenues have nearly doubled since 2011, growing 91%

Real estate impact

Continued growth of the United States' stake in the global contact center industry driven by demand for high-quality services

Though automation and new multi-channel deliveries meet some consumer demand for high-quality customized service and analytics, buyers of CCO solutions are increasingly focused on onshore delivery to fill that gap. The United States is leading the field of high-quality product and services, and thus seeing the largest growth in contact center operations focused on high-quality offerings. To confirm this trend, contact center contracts are seeing a greater shift in allocation to U.S.-based employees than in previous years. CCO contract agreements which have 25 percent or more of the associated workers designated as "onshore" (U.S.-based) employees have increased to 53 percent of all contracts signed in 2015, up 18 percent from 2010 figures. This significant shift of contact center users desiring quality will continue to cement the U.S. as the predominant player in the CCO industry. This growth of and direction toward onshore operations will be ubiquitous for both corporate users and third-party providers alike.

#2 *M&A frenzy spikes consolidation and technology investments*

Strategically executed mergers and acquisitions (M&As) continued to be active through 2016 as large contact center operators aimed to grow their market share as well as expand into new geographies and service lines. Newly consolidated titans saw their real estate portfolios expand — and with it came a renewed need to carefully consider location strategy, space optimization and portfolio management. Maximizing cost effectiveness and eliminating redundancies in these real estate holdings through space improvements and modernization coincide well with the increased demand by employees to have more flexible and dynamic work environments. In order to do this, contact center providers and service buyers will need to continue to carefully consider metrics in existing and target markets; including labor, site availability and market saturation to make educated decisions when contemplating portfolio changes after a merger or acquisition.

Ready-to-go contact center options are transforming the industry

Many factors are considered in the real estate decision-making process for users and third-party providers in the contact center industry. One popular option, plug & play spaces, provide convenient and efficient move-in ready centers for operators, and can cut transition and downtime to a minimum. These opportunities are traditionally located in vacant buildings and have furniture and generators in place, plus ample parking. Plug & play facilities are both efficient and convenient for users with less "runway" in terms of strategizing and shifting their real estate portfolios. Third-party providers, specifically, search for these spaces to not only minimize cost but save time as well.

Plug & play spaces are also now aiming to cater to the "live, work, play" employee base, targeting areas with amenities, gyms and restaurants nearby. Other ready-to-go contact center options are incorporating adaptive reuse elements by transforming former retail spaces and big-box stores, as these options offer ample parking and features key to attracting and retaining talent.

Average plug & play space

77,250 square feet

Houses **491** seats

Parking ratio of **6.5** spaces per **1,000** square feet

Significant M&A activity

January 2015

Alorica acquired **West Corp's** CCO business

February 2015

Capita purchased **Avocis**, a European firm, to increase its footprint in Germany, Austria and Switzerland

March 2015

HGS acquired a majority stake in **Colibrium** to strengthen its position in the healthcare sector

June 2016

Alorica purchased **Expert Global Solutions (EGS)**, adding 40,000 employees, 70 locations and $1.1 billion in revenue to its already dominant business

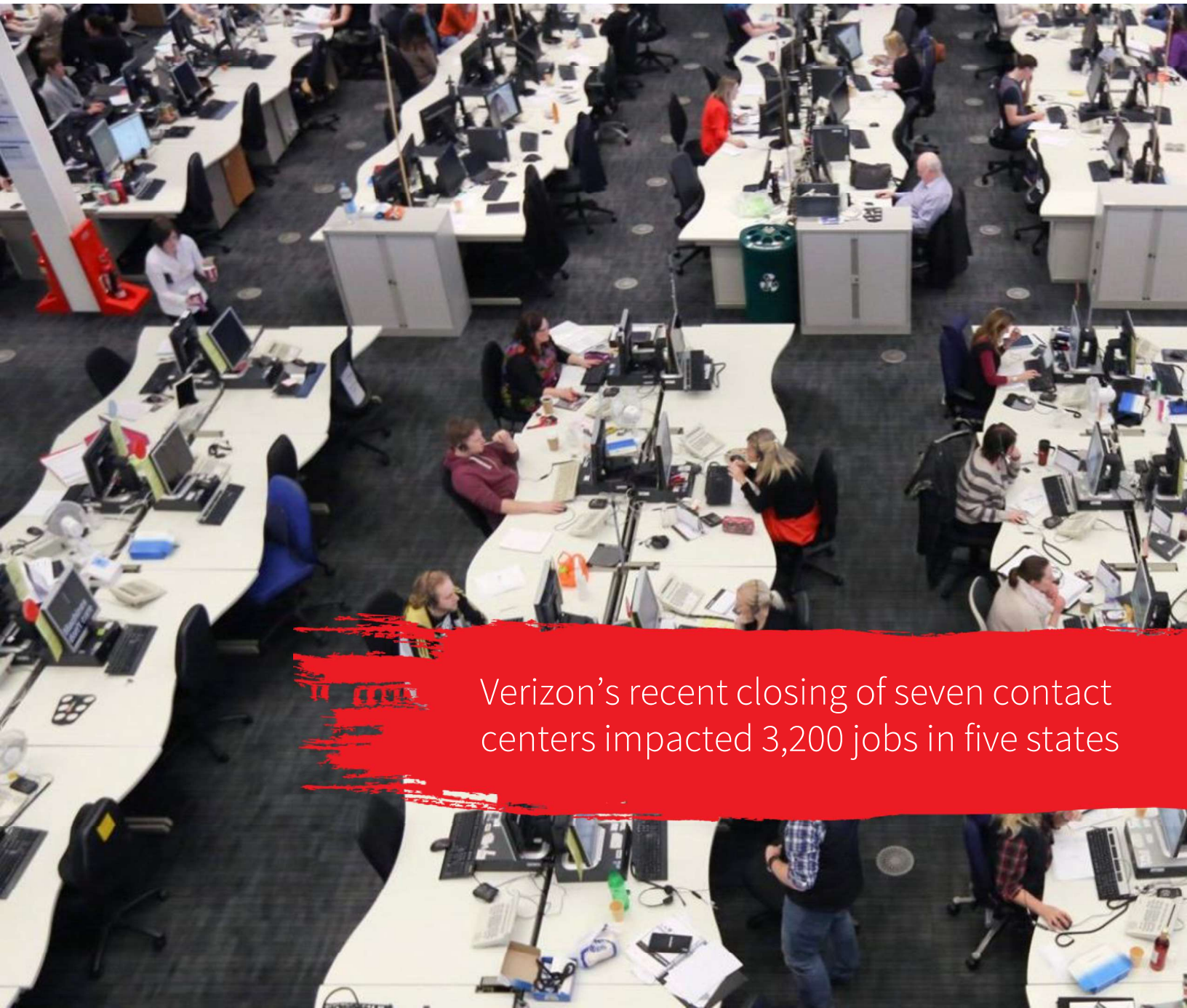
July 2016

Synnex, a subsidiary of **Concentrix**, acquired **Minacs**, strengthening the company's position as a top-10 global provider

Real estate impact

Shuffling, prioritizing,and reallocating real estate portfolios is playing a larger role as the volume of mergers and acquisitions grows

As onshoring grows, buyers will attempt to reduce real estate operating costs to offset increased labor costs by concentrating their labor across fewer facilities. This trend is occurring with third-party providers and in-house services alike, as demonstrated by Verizon's recent closing of seven contact centers, impacting 3,200 jobs in five states. In the majority of U.S. markets, open customer service representative (CSR) positions heavily outnumber the actual volume of qualified CSR candidates, creating a labor gap in markets to which CSR positions are being shifted. As a result, competition for skilled labor is high, placing upward pressure both on wages and on employee expectations for modern work spaces, as well as promotion and incentive opportunities. Furthermore, many of these markets do not have the population growth necessary to support growing demand for CSRs.



#3 *Geopolitical uncertainty breeds opportunity for reshoring to North America*

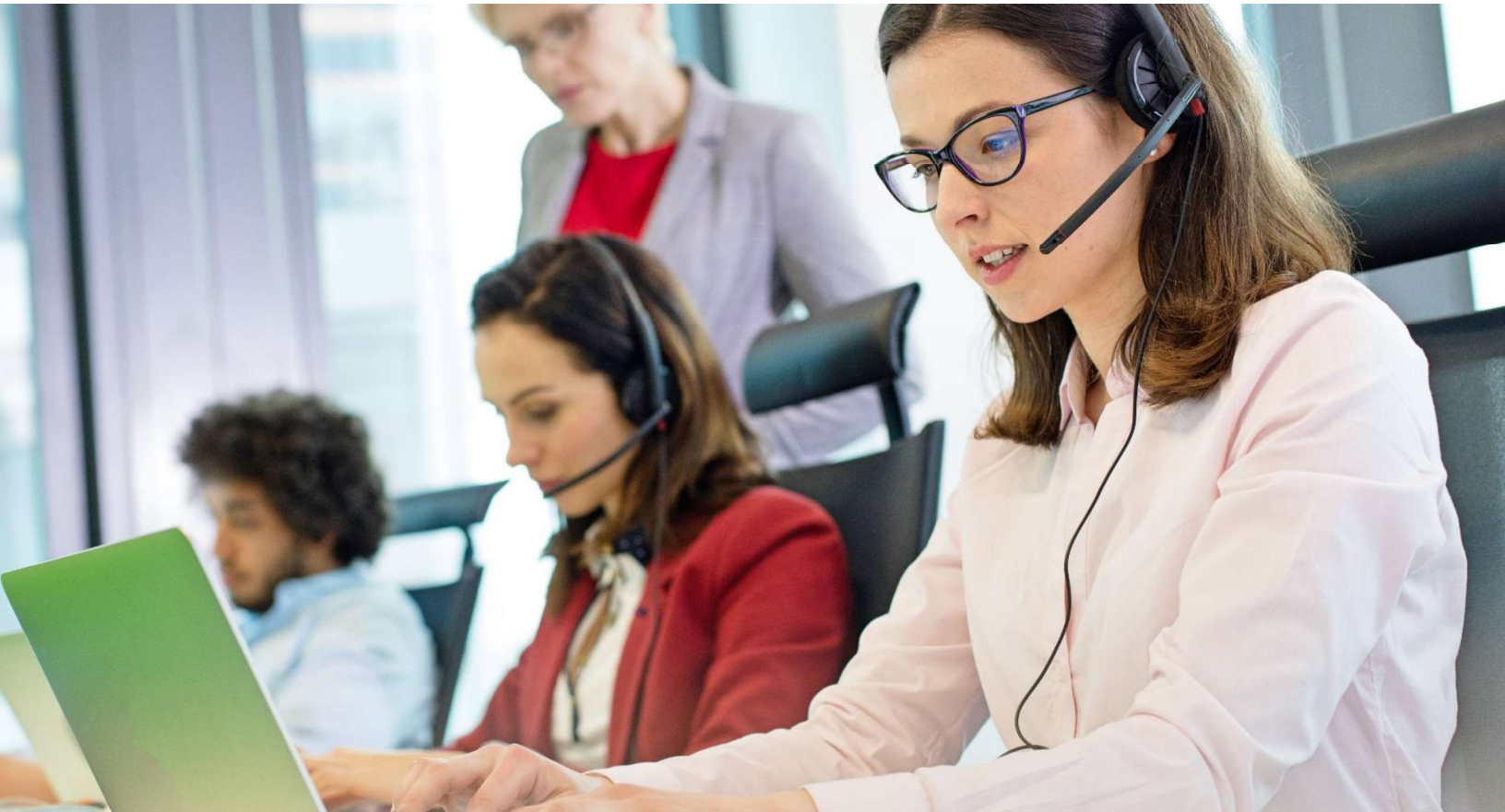
The geopolitical climate is changing in several key contact center markets, including the contact-center rich Philippines, United States and India. Rodrigo Duterte, president of the Philippines, has an unorthodox governance style which has bred unpredictability in the region. Currently, the country is transitioning from a K-10 school program to K-12, which may temporarily depress availability of CSR talent, which CCO firms require. Many CCO firms are reexamining their portfolios in the country and will continue to monitor the country's actions.

Moreover, the U.S. president Donald Trump may set an anti-outsourcing agenda given his campaign platform to bring jobs back to the country. At the same time, policymakers have proposed several pieces of legislation to combat outsourcing in the CCO industry. The next four years may produce regulatory obstacles for CCO firms who rely on access to low-cost, high-margin labor on a global basis.

Recent U.S. legislation aimed at limiting outsourcing:

United States Call Center Worker and Consumer Protection Act of 2013

Bring Jobs Home Act of 2014

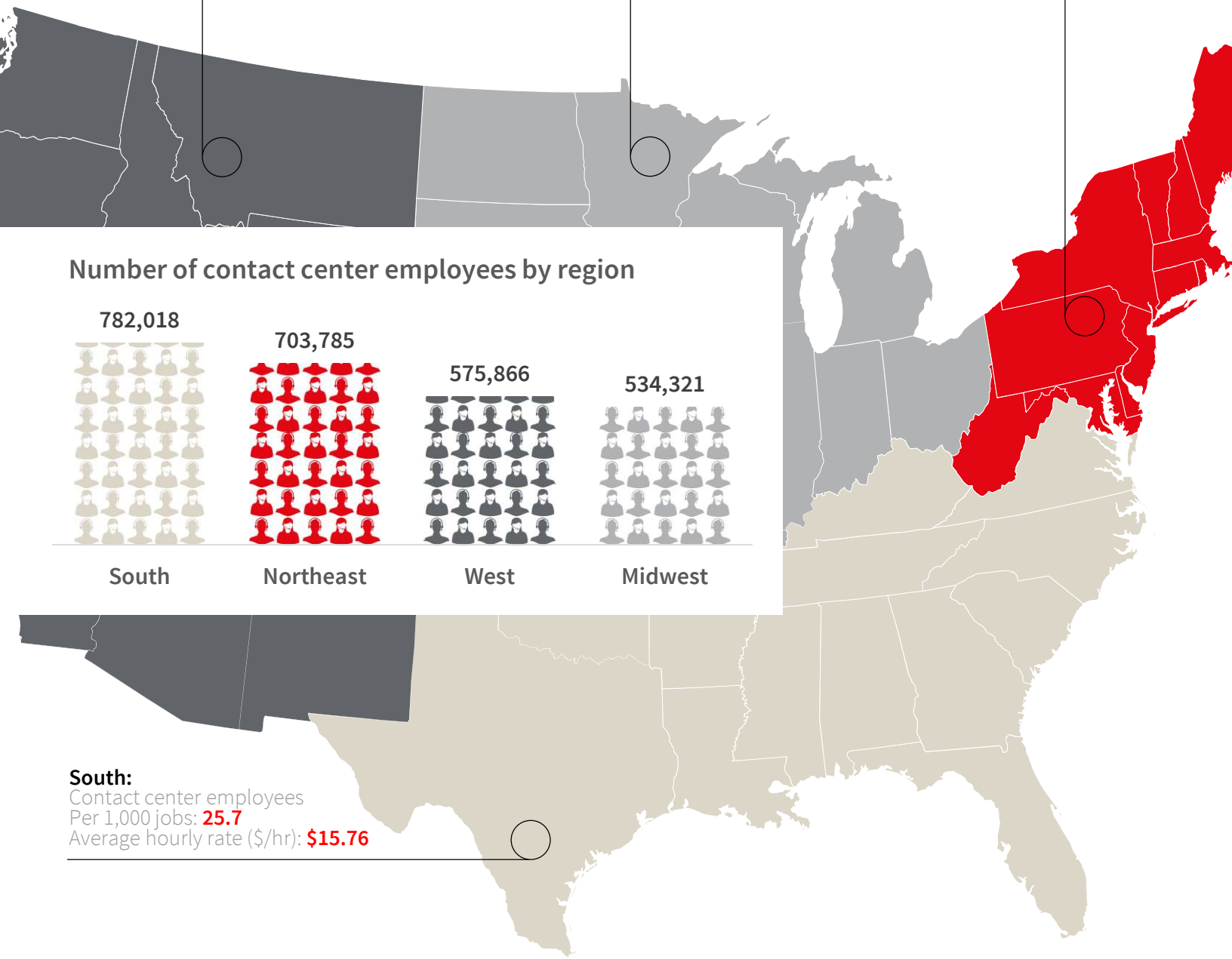


Contact center labor across the U.S.

West:
Contact center employees
Per 1,000 jobs: **19.4**
Average hourly rate ($/hr): **$18.38**

Midwest:
Contact center employees
Per 1,000 jobs: **21.6**
Average hourly rate ($/hr): **$17.00**

Northeast:
Contact center employees
Per 1,000 jobs: **18.7**
Average hourly rate ($/hr): **$18.70**



South:
Contact center employees
Per 1,000 jobs: **25.7**
Average hourly rate ($/hr): **$15.76**

Contact center labor statistics *(by region)*

Region	Contact center employees	Mean hourly wage*	Contact center employees per 1,000 jobs (density)
Midwest	534,321	$17.00	21.6
Northeast	703,785	$18.70	18.7
South	782,018	$15.76	25.7
West	575,866	$18.38	19.4
Grand total	**2,595,990**	**$17.39****	**21.6**

***= Across skill levels**
****= Average weighted wage**

The Northeast and West regions have the highest average hourly wages for customer service representatives (CSR), both above $18.00 per hour. The South has the lowest average hourly rate of $15.76 per hour with the highest CSR density with 26 employees per 1,000.

Top 5 most concentrated markets

Market	Region	Mean entry hourly wage	Contact center concentration (US=1)
Pueblo, CO	West	$10.48	11.0
Sebring, FL	South	$10.50	8.0
Yuma, AZ	West	$10.23	7.9
Lewiston, ME	Northeast	$10.63	6.9
Waco, TX	South	$10.00	6.5

The West contains two of the five markets by contact center concentration, while the South comprises the other two. Pueblo, Colorado, has the highest concentration of this group and the third highest entry-level hourly wage.

Fastest growing contact center metro areas *(by employee density)*

Metro area	Region	Mean hourly wage	Contact center employees *(per 1,000 workers)* 2015	Contact center employees *(per 1,000 workers)* 2010	Contact center employee growth *(per capita)* 2010 to 2015
Seattle-Tacoma-Bellevue, WA	West	$18.26	19.4	11.6	+67.8%
Detroit-Warren-Dearborn, MI	Midwest	$16.23	22.5	13.8	+63.5%
Miami-Fort Lauderdale-West Palm Beach, FL	South	$14.88	26.6	18.6	+42.7%
Tampa-St. Petersburg-Clearwater, FL	South	$15.15	35.1	25.3	+39.0%
Rochester, NY	Northeast	$17.41	24.2	18.0	+34.6%

Markets with the highest growth in CSR employees per 1,000 represent every major region in the country: West, Midwest, South, and Northeast. Tampa-St. Petersburg- Clearwater has the densest concentration out of the five markets, with 39 percent growth from 2010 to 2015. The Miami-Ft. Lauderdale-West Palm Beach area has a robust contact center market – while it has a significantly higher cost-of-living ratio than other cities, it remains competitive in entry-level pay. Over the course of 2010 to 2015, this area saw growth of over 47,000 contact center jobs.

Offshore markets overview

The battle between onshore and offshore markets continues, as each geography, region and nation offers distinct benefits and drawbacks to the contact center services industry. The United States and onshore facilities tend to produce higher quality services and contact interactions due in large part to the very high English-language proficiency in the country – although this can come with a higher price tag due to high real estate prices and labor wages compared to other countries. Traditional offshore markets like India and the Philippines provide value through lower-cost offerings and services, attributed in large part to cheaper labor and facilities.

From a broader perspective, the increased demand for automation and new technologies is expected to hinder contact center growth in offshore markets. This is due to the increased overhead needed to implement and maintain these technologies, distinctly going against the low-cost advantages the offshore markets offer. Additionally, this demand for technology and increasingly complex conversations with the end user will give onshore contact centers the upper hand going into 2017 and beyond.

Demand for technology and also increasingly complex conversations with the end user **will give onshore contact centers the upper hand** going into 2017 and beyond.

Summary & outlook

Technology, M&A and geopolitical uncertainty poised to disrupt contact center industry

The contact center industry, for both in-house and third-party operations, is expected to steadily grow for the next five years, accompanied by changes in multichannel delivery and services and a digital shift in end-user preferences. This will push demand for higher quality services and result in an increase in onshore labor. Mergers and consolidations will directly impact real estate portfolios as CCO providers and corporations try to remain cost effective.

While channel deliveries and services evolve, providers and buyers will pay close attention to uncertainty in the geopolitical climate and evaluate their portfolios to prepare for any swift changes in policy that may impact their business.

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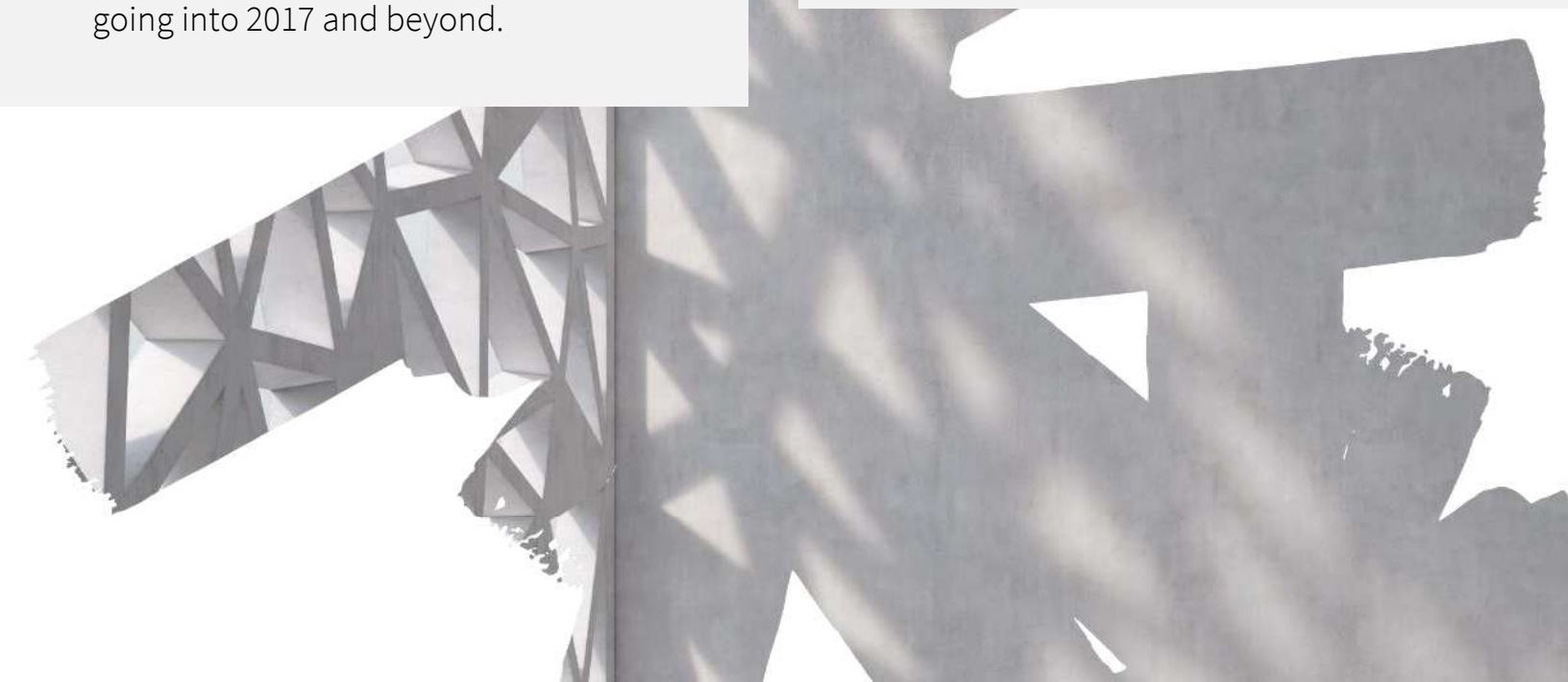

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Sources: JLL Research, Everest Group, Bureau of Labor Statistics (BLS)