How to Start a CALL CENTER

sas
Specialty Answering Service

Contents

1 Industry Analysis

1.1 Current Industry Landscape

With more and more companies turning to superior customer service as a means to stand out from their competition, the call center industry is growing. As the economy becomes tough, companies are looking to outsource customer handling to third party vendors who specialize in the call center business. Call centers can be broadly classified into two types – captive call centers and third party call centers. In a captive call center, the agents handle only one organization's customers. It is usually set up as a subsidiary of the parent company and functions as a cost center. The main objective of such a call center would be to optimize the operational cost while offering superior customer service. A captive call center's business grows in direct proportion to that of the growth in the parent company.

In the case of third party call centers, the call center may serve multiple clients either in the same industry or varying industries. Here the growth can happen either when the client's organization grows, or by acquiring new call center clients. The operations of a third party call center are run as a profit center and the focus is on improving the revenue billing as well as profits of the company.

1.2 Analysis of Market Conditions

The call center industry is fragmented in nature, and market players vary widely in terms of call volumes handled and services offered. While some players focus on a specific sector, others offer services across a wide variety of industries. Some players only offer call center services while others handle end-to-end customer service including reverse logistics. In the initial days, companies had their own call centers. However, today the trend in call centers is skewed towards outsourcing. Call center operations are outsourced typically to English speaking third world countries where the cost of operations would be only a fraction of the cost that you may incur in the United States.

An inbound call center is usually used for offering additional services to customers such as complaint handling, and information on products and services. An outbound call center typically focuses on lead generation for sales. They can also be used to conduct customer satisfaction surveys and for campaign management activities.

1.3 Need for a Call Center

A call center can provide several benefits to an organization. That is why a well-planned call center has a high chance of being profitable. In this section, we will look at some of the reasons why organizations opt for call centers. Industries such as financial services where there is a high volume of transactions with the end customers would benefit from a call center by helping to reduce transaction costs. The majority of simple transactions can be carried out by the caller himself with the help of a simple IVR system.

In addition to lowering the transaction costs, call centers also offer convenience to callers who may not have the time for, or access to, the branch network or client organization for a face-to-face transaction.

1.4 Key Factors that Influence Call Center Success

The call center industry has a high entry barrier, as clients do not wish to change the call center to which they have outsourced their operations due to the significant switching costs associated with changing partners. The learning curve of agents is also quite steep, as they need to learn the business processes and products of the clients being serviced. Intense competition among call centers makes it difficult to increase billing to clients. Therefore, the operational costs have to be kept as low as possible. Given below are some of the key success factors for a call center:

1. A robust technology framework that can accommodate year on year business growth
2. A well-trained and motivated staff who would strive to achieve quality and productivity goals
3. A diverse clientele which would reduce dependence on a single client for revenue and margin

2 Business Model

A key step in starting a call center is preparing a business plan. This must cover aspects such as what services you would offer and which customer group you would like to target. Both of these decisions depend on two key factors – the competition and your skill set. You can be successful if you can identify a profitable niche without a great deal of competition, that can be well-served with your skill set.

2.1 What Services to Offer

Call centers face competition from players all across the globe. The industry is fragmented in nature with several small firms catering to small organizations, while some of the bigger players cater to large clients such as GM, Citi and Amex. Since the competition is intense, it is difficult to get good rates by offering plain vanilla solutions. If you can offer services catering to high-end niches such as legal services or healthcare practices, then you will have better margins.

Market penetration is difficult unless you are a captive call center with assured business volumes. This is because contracts are usually awarded to firms with a reputation for high quality services. One way to break through the barrier is to have industry veterans with good professional networks in your top management. The other step to take is to opt for quality certifications for your operations, which can act as an assurance of your professionalism to potential clients. As a new player, you would also need to participate actively in industry forums that will act as a means to introduce your services to potential buyers. By keeping operational costs as low as possible, you would be able to give better rates to clients that will go a long way in winning new business in this price sensitive industry. In the initial stages, you must also be willing to offer customized solution packages for your clients in order to capture market share. It is best to have at least a couple of contracts under your belt before you start setting up your call center. This will help to assure revenues from day-one of operations.

2.2 How to Offer Services

Before an organization decides to set up a call center, careful thought should be spent on deciding which service strategy is best. Some of the options for a call center include hotlines, shared infrastructure arrangements, establishing an in-house call center or outsourcing the call center to a third party vendor. Each option has its advantages and disadvantages and you must evaluate each of these options carefully before determining the most suitable approach for your needs.

Hotlines

Hotlines are not exactly call centers. But if you are an organization considering establishing a call center to address a temporary spike in customer queries or complaints, then this is a better option to consider. This can also be used for new product launches and campaign management activities.

The advantage of opting for a hotline is that it does not require a heavy upfront investment on telephony and IT infrastructure, and it can be made operational quickly. The main focus will be on training agents to handle the calls. However, hotlines cannot be a permanent strategy, as the operations will not be able to handle heavy call volumes for an extended period of time.

Shared Infrastructure

This option can be considered if you do not have sufficient call volumes to necessitate setting up an independent call center. You can piggyback on the existing infrastructure of another organization that already has an established call center by creating SLAs for quality and productivity. You would only incur contractual costs and all set-up costs can be completely avoided in this case.

Organizations looking to start a call center must also carefully evaluate the benefits of outsourcing the call center operations before opting for an in-house call center. In the next section, we will look at how to plan a call center implementation.

3 Planning for a Call Center Implementation

Proper planning is an essential step in determining the success of call center implementation and operation. A well laid out business plan is a key factor in ensuring that the call center is aligned to the objectives of the parent organization and has a profitable and cost effective operation. The business plan should also include key service level requirements for operations, key considerations that shall be kept in mind while sizing the call center, selecting the right site for operations as well as the extent of change management and process re-engineering needed for the implementation. A period for key activities shall also be drawn out so that the call center is operational without undue delays. The business plan should also provide the organizational and financial reasons for choosing to set up the call center.

3.1 Setting the Objective

Before deciding on the infrastructure, enablers, technology, and staff needed for the call center, it is essential to lay down the business objectives of the call center. The choice of infrastructure, technology, and number of staff and their skill levels all depend on the objective of the call center. This should be set forth before any procurement or hiring activity is commenced. The objectives should be as narrow as possible as this will help to procure the ideal technology and staff mix to serve the needs of the call center.

Some of the key objectives of why organizations opt for setting up a call center are given below:

1. Improve customer service levels and offer 24*7 support for customers
2. Reduce the number of customer complaints received
3. Cost reduction of transactions without affecting service quality

You need to identify the main objectives behind setting up your call center so that you have clearly defined measures of success.

3.2 Sizing the Call Center

If you are thinking of establishing a call center to handle the customer calls for your organization, then arriving at the right size for the call center is extremely important. You can start this process by collecting data pertaining to the calls that you currently receive. The following data points need to be collected and analyzed to determine the call center's size:

1. The number of calls currently received
2. Call duration metrics – average duration of call, minimum and maximum duration of calls, bucketing of calls into various buckets in terms of duration

3. Metrics related to nature of call – bucketing of calls into inquiry calls, service calls, complaints/escalation calls.

Once this data is collected, it should be corrected to account for the likely increase in calls when a dedicated call center is introduced and customer awareness about the option increases. You must also collect data related to competitor's call center size, if it is publicly available.

Other factors that can influence the size of the call center include:

1. Time spent on data processing activity – pre and post call.

2. Likely availability of staff (leave policy and absenteeism)

3. Potential gains to be achieved if the right expert is made available to answer the call, so that multiple calls can be avoided. This needs to be measured both in quantitative terms of agent time saved as well as qualitatively in terms of improvement in customer satisfaction and brand perception

4. Variations in peak traffic at different times of the day as well as between weekend and weekdays

The growth plans of the parent organization should also be considered. Thus, if the parent organization plans to expand geographically, then you would need staff capable of handling language and cultural requirements of the new geography. Similarly, if the organization is planning to enter into a new product line, then the call center staff should be technically capable of handling queries related to the new product.

In general, sizing an inbound call center is more challenging than sizing an outbound call center. In the former case, the organization cannot control the call volumes or the variation in peak traffic. While a huge organization may hire external consultants to arrive at the size of the call center, a simple process of sizing the call center is shown below:

1. Arrive at the inbound and outbound call volume

2. Arrive at the average time for each call and related processing time for each call

3. Arrive at the actual work hours of an agent

The average time of each call should take into account only the actual time that is spent talking on the telephone. The processing time includes all paperwork and data analytics work associated with a call. Typically, if you consider an eight-hour shift, the productive time or actual work hours for an agent is likely to be six hours or 360 minutes.

Once these numbers are estimated, the average customer time can be calculated as follows:

- Average customer time (in minutes) = Average call time + Average processing time
- Average number of calls per agent per day = 360/average customer time
- Staff required = Total call volume expected/average number of calls per agent per day

If the sizing of the call center is correct, then it goes a long way in ensuring that the human resource management of the call center is a success. Sizing should also consider the levels at which agents need to be hired as well as the recruitment and promotion policies of the call center. Once call center sizing is complete, the output should be a staffing plan, which includes the following elements:

1. Number of agents initially required as well as year on year growth plan for the next 3 years
2. Identify the organizational structure and determine skill levels needed for each role
3. Develop the recruitment process and the timelines
4. Design the induction training for initial hires

3.3 Determining Call Technology and Equipment

Based on the level of sophistication needed for the call center as well as call volumes and the budget available for setting up the call center, the choice of technology can vary widely. The various options available for telephony technology are summarized below:

1. *A single contact number*: This is the most rudimentary approach towards establishing a call center where you have a toll free number that customers can call without having to pay for it.
2. *Basic Telephone System*: Here the agents will have separate lines, which can directly receive and make calls.
3. *PABX system*: A Private Automatic Branch Exchange is a set of specialized equipment that can allow calls to be transferred internally while retaining individual numbers for different telephones. Callers can dial a specific extension to reach a specific agent or department.
4. *Automatic Call Distribution (ACD)*: This is an advanced system, used in almost all call centers today. This system provides the flexibility of offering improved customer service by allowing the calls to be placed on hold until an agent becomes free to answer the call. This can drastically reduce call drop rates and achieve load balancing by effectively distributing incoming calls based on a defined set of rules. Most ACD systems today have the ability to generate comprehensive MIS reports on a near real time basis to help in analyzing call patterns and changing rules to prioritize calls based on real time variations in call traffic.

5. *IVR*: IVR systems can also be used to route the calls to the most relevant agent based on choices that the caller makes. One of the major negatives with an IVR system is that often a caller has to navigate through several menu options before he can speak to a real person, which can lead to a loss in customer satisfaction. Thus, it is important to pay close attention to the design of the menu in an IVR system.

6. *Computer Telephony Integration (CTI)*: Today, Interactive Voice Response systems are used mostly by inbound call centers to automate many activities, which callers can handle by themselves. For a financial services call center, this would mean providing details of the last five transactions or the current balance in the account. However, this would require the IVR system to be linked to the underlying IT system and customer database for authentication of the caller and data retrieval. This is achieved through CTI, which also allows the agent to view transactions and customer information related to the caller as soon as the call is routed to him/her. The flip side of CTI is that it can be extremely expensive depending on the features chosen, and typically only very large call centers would have a full-fledged CTI system. In a CTI system, agents typically have headsets, and separate telephone equipment such as handsets is not required.

3.4 Additional Technology Investments

Once you have finalized the type of telephony equipment that you want to use in your call center, the next step is to consider whether any of the additional equipment mentioned below is required for your call center:

Predictive Dialers

If you are looking to set up an outbound call center, then you may want to consider investing in predictive dialers which can auto dial numbers from a database so that busy numbers as well as unanswered calls can be filtered out and live agent time is only spent on live calls. Again, before deciding on the purchase, a cost benefit analysis has to be done on the cost of agent time saved as compared to the cost of the equipment.

Automatic Call Recording

If your call center is handling sensitive customer information or if you operate in a sector or geography where there is likely to be a high percentage of disputes, then it may be a wise idea to invest in automatic call recording equipment. This will help to record the call transcripts, which can be used for resolving disputes as well as for training agents on how to handle specific situations. It is important to keep in mind that if you use call-recording equipment, then you need to inform customers that their calls may be recorded and provide them the option of either hanging up or being excused from the live recording. You must have your legal team address the privacy related regulations that you will need to comply with while using call recording.

Noise Reduction Headsets

A call center environment can become very noisy with the constant calls attended by agents who may be seated very close to each other. Noise reduction headsets go a long way in increasing the productivity of agents as well as improving the customer call experience, as it increases call response time as well as post call-processing time. Since agents would be using the headset for a long time every day, lightweight, comfortable headsets are the optimal choice.

3.5 Planning Data Availability and Technical Integration

Data architecture is a key element to consider when setting up a call center. While this may not be necessary in the business plan that you may submit to a financial institute for funding, it is an essential part of your operational plan and it directly affects the cost of technology that you will incur in setting up your call center. If you are not running a captive call center, then data access and integrity is even more critical and you will have to design your system in such a way that the agents have access to information on a strictly need to know basis. Some of the key factors to keep in mind while designing the data and server architecture and information security policies are given below:

1. Location of data servers
2. Ownership of data being used
3. Integrity of existing data
4. Ways to prevent duplication and reconciliation problems when agents access and modify data
5. Access control methods

If you are planning to set up a third party call center to serve multiple clients, then you need to estimate what part of the IT costs you would incur and what part of the cost would be borne by your clients. You would also want to decide on the service levels of uptime that you plan to offer your client, as that would determine the amount of redundancy that you will have to build into the system architecture.

You would also need to determine the kind of CRM system that you want to use to provide agents with customer information needed to handle calls effectively. In addition to the customer information, the system that you choose should be able to automatically track the outcome of a call and timestamp the call. Follow-up action should be seamlessly integrated into the system. Today, several vendors offer this kind of software, and you can choose the one that best meets your needs and your budget, keeping in mind the following criteria:

- Relationship management features

- Response time
- Ease of use
- Compatibility with other hardware and software systems
- Call routing and scheduling features
- Vendor support for training and maintenance

If the parent organization is willing to share the customer databases and allow direct access to information, then you would only need to set up an interface to the customer database from your call center IT system.

A well-maintained and robust customer database is even more critical in the case of an outbound call center. If the customer database, transaction database of the parent organization and the call center database can be interlinked, then it can be a powerful tool for the parent organization in the following areas: customer segmentation, targeting, product design, and developing marketing strategies.

3.6 Involving Key Stakeholders in the Planning Stage

While setting up a call center, it is important that you involve the key stakeholders from an early stage. This will help to make your business plan as robust as possible and would the top management team ownership of the plan. If you are planning to set up a totally new call center, then you must hire the call center operations head, the IT head and the HR head before you finalize your business plan. This will help to incorporate their ideas into the choice of equipment and agents.

Another key stakeholder group who should be involved in the planning stage is your client's customer base. These individuals would be utilizing the services of your call center. A well-planned survey would help you to identify the kind of services to offer through your call center, as well as the preferred technology to be used (such as whether customers are positive about IVR and speech recognition or would prefer to speak directly to an agent).

3.7 Managing Operational Costs

Once the call center is operational, it is essential to be aware of any unplanned cost escalations, which can set the project financials in disarray. It is essential to put aside a contingency fund to ensure that the cash flow is not squeezed should such events occur. Some of the operational events that can have an unplanned cost impact are listed below:

- Cost of client acquisition – this can soon spiral into a very large number, especially for third party call centers

- Manmade or natural disasters than require the business continuity plan to be set in motion
- Unexpected system downtime
- Relocation or expansion due to sudden growth in client base

3.8 Making your Call Center Future Ready

Call center architecture needs to be future-proofed. Changes in the underlying technology can prove to be costly in terms of effort, time, and money spent on change management, technology enhancements, and re-skilling agents. You need to be aware of the latest developments in the call center industry as well as your client industry in order to make your call center future ready. For example, most financial institutions today offer customers the ability to conduct transactions through multiple remote channels such as mobile, fax, web, and ATM, not to mention the call center as well as the branch itself. The call center would be increasingly expected to take over some of these remote service channels and effectively manage them in future.

4 Call Center Operations Management

Good operations management practices are an essential element in achieving the objectives of the call center. The diagram below depicts the key aspects of operations management in a call center, each of which is discussed in subsequent sections:

Key Elements of Call Center Operations

4.1 Human Resources Management

Staffing is the highest operating cost of a call center. So, it is imperative to incorporate structured growth paths as well as retention strategies for agents and management staff in the call center.

As part of the operations management of the call center, it is essential to have documented and well laid out processes and policies for the following HR activities:

1. Recruitment
2. Training
3. Staff Welfare – Health and Safety, Leave and Benefits
4. Compensation Structuring
5. Promotions and Career Paths
6. Separation
7. Staff discipline

Motivation and retention strategies should also be well thought out based on a scientific cost benefit analysis. It is essential to recognize the importance of agents and managers in helping the call center achieve its stated objectives and goals. Some of the key areas are listed below:

Staff Training

Staff training is an essential part of call center success, as callers perceive the agents as the face of the parent company. Therefore, allocating adequate budget and time for staff training is essential. Some of the key areas of training can be:

- Technical Skills and Product Knowledge
- Call Handling Etiquette
- Communication Skills
- Negotiation and Sales Skills
- Stress Management
- Use of IT systems
- Familiarization of the policies and processes of the call center

Team leaders and managers need to be trained on aspects such as quality assurance, monitoring of performance metrics, and staff management.

Training plays a key role in improving agent performance, and there should be a planned induction-training program for all agents who join your call center. You must budget for annual training costs in your staff plan and financial projections.

Career Progression

In order to maintain the quality levels and service standards of the call center, it is important that you have a documented career progression plan for agents to move to the level of team leaders based on a list of skills that they need to acquire. A competency based assessment and performance management system needs to be designed and implemented in line with the objectives of the call center. Some of the key metrics that can be measured include call quality, understanding of business processes and keyboard speed. You must also train team leaders to provide immediate feedback to agents rather than waiting until the formal appraisal period. A well-defined career progression path should be designed and communicated to agents, so that attrition rates can be minimized.

Staff Retention

Staff retention has been a major challenge in call center operations all across the globe. Hence, you need to pay special focus on this aspect while creating your call center business plan. Often, the lack of career progression, the monotonous nature of work, and the odd work hours have been cited as top reasons for high staff turnover.

To avoid the monotonous nature of work the following aspects need to be taken care of while recruiting and training staff:

- Provide job rotation between customer facing and back end operations
- Provide job rotation between different types of activities
- Train staff to be multi-skilled

Compensation and Benefits

While designing the compensation and benefits package of staff, make sure that you include performance-linked incentives so that agents are encouraged to consistently achieve high quality performance. Bonus payouts should be linked to the performance metrics that the call center targets to achieve. Team leads and managers should also be offered variable pay based on these parameters, so that the organizational objectives as well as the individual objectives are in perfect alignment. One key aspect to keep in mind while designing the compensation and benefits package is that it should not only encourage individual excellence, but it should also motivate agents to work together as a team.

Creating a fun environment at work is an important factor to retain agents. You may want to set aside a fixed monthly budget for conducting staff wellbeing activities such as celebrations and motivational events.

4.1.1 Minimizing Staff Costs

In order to minimize staff costs, you may also consider hiring temporary employees to handle peak loads. This is especially relevant for call centers where there is a huge variation in peak load. It will also help to have a plan in place to absorb high performing temps into the permanent roles of the company. The recruitment and selection strategy should be designed in such a way that you minimize attrition rates among staff, which will directly result in cost savings in the area of recruitment and training.

4.1.2 Staff Rostering and Scheduling

While preparing the business plan for your call center, pay close attention to the staff rostering and scheduling aspects. You need to decide on whether you plan to offer remote working options (which translates to lower infrastructure costs), what percentage of staff would you want to be temps, and whether you want to operate in shifts to cater to your client operations in remote locations or different time zones. Studies have shown that shorter shifts are directly proportional to increased agent productivity. For example, if you operate a six-hour shift, then you need not allocate time for lunch and coffee breaks, unlike in the case of an eight-hour shift. Weekend work should ideally be scheduled with temp staff, thus allowing permanent staff a more balanced work life.

If you plan to have a call center with more than fifteen to twenty permanent agents, then it would be a good idea to invest in workforce management software to help prepare staff rosters after taking into consideration all the relevant variables. This would help to save the team leader's and manager's time that would otherwise be spent on creating manual rosters which need frequent tweaking based on leave and load variations.

4.2 Business Continuity Planning

One of the key success factors of a call center is the ability to offer continuous service. Business plans should have enough redundancy built in at various levels to handle service disruptions due to factors such as technology failure or staff absenteeism, not to mention unforeseen events such as environmental disasters or fire.

A separate business continuity plan needs to be developed to ensure continuous service delivery. One of the expenses related to business continuity planning is the establishment of an alternate site that can be used during normal periods as a training center. It can also serve as a secondary call center to which calls can be routed in the event of an unexpected increase in call volumes. The primary site should also have redundancies in the telephone and IT equipment.

One of the most cost effective ways to ensure staff redundancy is to have a pool of temporary staff that are well trained in all operations and can be quickly deployed to the alternate site when a disaster occurs.

It is also important that the business continuity plan is regularly tested and kept up-to-date to match with the growth of the call center. Simulation tests to check the effectiveness of the business continuity plan need to be conducted regularly to make necessary changes.

5 Call Center Performance Metrics

It is important to focus on quality and productivity from the first day of operations. Thus, it is important to identify the key performance metrics that you would track regularly and the levels that you aim to achieve. These metrics also have a direct impact on the kind of technology infrastructure that you would select as well as the skill levels of agents that you would hire. Both internal productivity measures as well as caller satisfaction measures must be tracked and monitored regularly. A recent Gartner study has identified the following industry standards for key metrics in the call center:

- Average call wait time: < 20 seconds
- % of calls answered within the average call wait time: > 80%
- Call drop rate: < 5%
- Agent availability: >99%
- First call resolution: > 95%
- % of time spend on calls: 83%
- Average call duration: 187 seconds
- Staff turnover: 22%
- Average length of service of agents: 27%
- Agent: Team Lead Ratio : 13:1
- Average Training Time: 27 days per year

Depending on your capabilities as well as client requirements, you must set your own goals for each of these parameters and monitor your performance against these on a daily, weekly, monthly, and quarterly levels. Comparing your performance against industry benchmarks would help to identify areas of improvement.

Key Performance Indicators measure the effectiveness of handling calls, which translate to service delivery excellence. In addition to these KPIs, you must also monitor the cost per transaction as well as the earnings per agent as this would help you price your contracts effectively.

5.1 Agent Performance Measurement

Often agent performance is measured quantitatively in terms of the number of calls per hour, average call time, average processing time and so on. However, it is important to review the call records in order to identify areas of improvement for the agent in terms of quality of client handling.

5.2 Other Performance Indicators

Some of the other performance indicators that you must track for your call center include staff satisfaction levels and leave levels. Professionally developed questionnaires should be used for measuring the organizational climate so that corrective action can be taken in areas such as performance management, team leader roles, and compensation and benefits programs.

5.3 Performance Reporting to Clients

If you operate a third party call center, it is important to report your achievements against SLAs, which would be documented in the contract. Your internal KPIs need to be more stringent than the SLAs in order to make sure that you do not face the penalties associated with breach of SLAs. Today, advanced call center IT systems have integrated MIS capabilities, making performance monitoring and reporting of quantitative parameters an easy task. However, the challenge is to be able to measure the qualitative aspects of agents' call handling.

In addition to reporting performance to clients, these parameters can also be used to set and monitor internal quality goals. Strategies to improve performance on each of the KPIs need to be devised and incorporated for the call center to remain competitive. It is also important to achieve the fine balance between the qualitative parameters and the quantitative parameters that may often be in conflict with each other.

Some of the techniques in which quality of calls and customer satisfaction with the agents can be measured are listed below:

1. Call monitoring
2. Customer Surveys
3. Mystery Calling
4. Benchmarking
5. Processes and Policies

Call Monitoring: Call monitoring strategies help to evaluate agents on a real time basis and can be a useful tool to identify training needs of specific agents. It can be done using various methods such as silent call monitoring, double jacking or with the help of call recording technology. Advanced call recording equipment comes with the ability to track and analyze call patterns and voice tones.

You must take care to use call monitoring in a judicious manner. Using call monitoring for negative aspects such as disciplinary monitoring may result in unmotivated staff, which would ultimately negatively impact the success of your call center. Some of the key elements that must be tracked using call monitoring include the following:

1. Greeting and Acknowledgement
2. Call Etiquette
3. Effective Listening
4. Voice Tone, Pitch and Accent
5. Positive Attitude
6. Knowledge of Products and Services
7. Call Resolution

Team leaders can make use of a structured evaluation form to monitor agent performance and give feedback.

Customer surveys, mystery calling, and benchmarking against competition are some of the other ways in which qualitative parameters can be tracked and monitored.

6 Project Financials

Your call center may have a service focus or a sales focus or it may be a combination of both. No matter what the nature and size of your call center, prudent financial management is an essential factor for the success of the call center. It is essential that sufficient thought is spent in arriving at the financials for at least the first three years of operations. It is ideal to have monthly financial projections for the first year of operation as that is crucial in terms of any course corrections that you may want to make. The key elements that contribute to the project financials are your sales plan, your personnel plan, and your technology roadmap.

According to a study by the Gartner group, a typical call center would spend almost 65% of its operational budget on staff costs, 18% on network costs, 8% on equipment costs, and 7% on facilities.

6.1 Start-Up Expenses and Funding

The first step in arriving at the project financials is to calculate the startup expenses and initial funding availability. Startup expenses include infrastructure expenses as well as cash needed to sustain operations until the call center generates sufficient operational revenue. Initial funding can be in the form of founders' equity capital, bank loans, or funding from private investors

A sample template that can be used to calculate startup expenses is given below:

Start-up Expenses	**Value**
Legal & Insurance	A
Hiring Expenses	B
Rent & Utilities	C
Equipment	D
Accounting	E
Marketing	F
Others	G
Total Start-up Expenses (K)	K=A+B+C+D+E+F+G
Start-up Assets	
Cash Required	L
Current Assets	M
Long-term Assets	N
Total Assets (O)	O=L+M+N
Total Funding Required (P)	P=K+O

Once you have arrived at the startup expenses and the funding required, the next step is to arrive at the source of funds. The following template can be used as a guideline to arrive at the funding details:

Total Funding Required	**P**
Assets	
Non-cash Assets	M+N
Cash Requirements	L
Additional Cash Raised	Q
Cash Balance on Day 1 of Operations	L+Q
Total Assets	O+Q
Liabilities and Capital	
Liabilities	
Current Borrowing	R
Long-term Liabilities	S
Outstanding Bills	T
Other Current Liabilities	U
Total Liabilities (X)	R+S+T+U
Capital	
Planned Investment from Founders	V
Additional Investments	W
Total Planned Investment	V+W
Loss at Start-up (Start-up Expenses)	K
Total Capital (Y)	V+W-K
Total Capital and Liabilities	X+Y

6.2 Sales Plan

A detailed sales plan needs to be drawn up for the call center's initial years of operation. Revenue projections can be made based on the expected call volume per client as well as the number of clients that the call center expects to handle. Contracts with clients can either be for a fixed number of agents or for a fixed number of calls handled. The sales plan should take into account expected revenues from the call center's various service offerings. It should also include the expected cost of client acquisition, if it is a third party call center. Before creating the sales plan, it is essential to identify the market segments in which you plan to operate. Typically specialized call centers such as those handling high-end technical areas or specialized fields such as legal or medical will fetch better margins than a simple helpdesk operation.

6.3 Personnel Plan

The personnel plan can be derived directly from the call center sizing exercise. The personnel plan should include expected headcounts for various levels such as agents, team leads, managers, and senior management over a period of three to five years. Salary expenses, recruitment and training expenses, and staff welfare expenses should be included in the personnel plan.

6.4 Financial Plan

The financial plan should be documented after taking into consideration interest rates and inflation numbers. A break-even analysis, projected cash flows, profit and loss statements and a projected balance sheet need to be documented. From a financial management perspective, these components, along with obtaining funding from private investors or financial institutions, are important aspects of a business plan.

6.4.1 Break Even Analysis

The breakeven point for the call center operations is the point at which the net incoming cash flow is higher than the net outgoing cash flow. It is important to spread out the staff costs and other operational costs in such a manner that the breakeven point is reached as early as possible. The call center operations would become self-sustainable only after the breakeven point has been reached.

6.4.2 Projected Profit and Loss

A sample template for arriving at the profit and loss projections is given below:

Year	**1**	**2**	**3**	**4**	**5**
Particulars					
Income					
Revenue from client contracts	R1				
Cost of Sales	C1				
Gross Margin	R1-C1				
Expenditure					
Fixed Operating Expenses	-	-	-	-	-
Personnel Expenses	P1				
Marketing and Advertising Expenses	M1				

Rent Expenses	RE1				
Utilities	U1				
Insurance	I1				
Travel	T1				
Other	O1				
Total Operating Expenses (OE)	OE = P1+M1+RE1+U1+I1+T1+O1				
Profit before depreciation, interest and tax (PBDIT)	R1-C1-OE				
Less: Depreciation	D1				
Profit before interest & tax (PBIT)	PBDIT – D1				
Less: Provision for Interest	Int1				
Profit Before Tax (PBT)	PBIT – Int1				
Less: Provision for taxes	Tax1				
Profit After Tax (PAT)	PBT-Tax1				

6.4.3 Projected Cash Flow

The projected cash flow calculations help you to identify any cash flow problems that can choke the operations of any business, including your call center. A sample template to arrive at the projected cash flow is given below:

Pro Forma Cash Flow			
	Year 1	**Year 2**	**Year 3**
Cash Received			
Operational Cash Inflow			
Cash Sales			
Cash from Receivables			
Cash from Operations			
Cash Inwards			
Tax Refunds Received			
New Current Borrowing			
New Liabilities			
Sales of Current Assets			
Sales of Capital Assets			

New Investments			
Cash Received			
Expenditures			
Operational Cash Outflow			
Cash Expenses			
Cash Bills			
Operational Expenses			
Other Cash Expenses			
Taxes Paid Out			
Principal Repayment of Current Borrowing			
Other Liabilities Principal Repayment			
Long-term Liabilities Principal Repayment			
Current Assets Purchase			
Capital Assets Purchase			
Dividends			
Subtotal Cash Expenses			
Net Cash Flow			
Cash Balance			

6.4.4 Projected Balance Sheet

A projected balance sheet may be prepared for the initial years of operation. A sample template is given below:

Pro Forma Balance Sheet			
	Year 1	**Year 2**	**Year 3**
Assets			
Current Assets			
Cash			
Accounts Receivable			
Other Current Assets			

Total Current Assets			
Capital Assets			
Capital Assets			
Depreciation			
Total Capital Assets			
Total Assets			
Liabilities and Capital			
Current Liabilities			
Accounts Payable			
Current Borrowing			
Others			
Total Current Liabilities			
Long-term Liabilities			
Total Liabilities			
Paid-in Capital			
Retained Earnings			
Earnings			
Total Capital			
Total Liabilities and Capital			
Net Worth			

6.4.5 Business Ratios

It is important to project key financial ratios and compare it against industry standards to verify whether your operations are maintained at a healthy financial level. This will also help you to take corrective action, should you notice any difference in your projected ratios. Given below is a list of key ratios that you may want to track and monitor:

Business and Financial Ratios				
	Year 1	**Year 2**	**Year 3**	**Industry Levels**
Y-o-Y Sales Growth				8.79%

Percent of Total Assets				
Accounts Receivable				28.12%
Other Current Assets				44.18%
Total Current Assets				76.27%
Capital Assets				23.73%
Total Assets				100.00%
Current Liabilities				38.61%
Long-term Liabilities				13.60%
Total Liabilities				52.21%
Net Worth				47.79%
Percent of Sales				
Gross Margin				100.00%
Selling, General & Administrative Expenses				82.68%
Advertising Expenses				1.66%
PBIT				1.37%
Main Ratios				
Current				1.59
Quick				1.22
Total Debt to Total Assets				3.09%
Pre-tax Return on Net Worth				60.22%
Pre-tax Return on Assets				7.76%
Additional Ratios				
Net Profit Margin				
Return on Equity				
Activity Ratios				
Accounts Receivable Turnover				
Collection Days				
Accounts Payable Turnover				

Payment Days				
Total Asset Turnover				
Debt Ratios				
Debt to Net Worth				
Current Liab. to Liab.				
Liquidity Ratios				
Net Working Capital				
Interest Coverage				
Additional Ratios				
Assets to Sales				
Current Debt/Total Assets				
Acid Test				
Sales/Net Worth				
Dividend Payout				

7 References

1. ICT Strategic Plan for the Malaysian Public Sector: Standards, Policies and Guidelines for Establishing a Call Center Version 1: March 2004.