Electra Regional Business Growth Initiative

Business Processing Sector Report

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1.0 Background

Following the Electra Enterprise Forum in April 2013, an Establishment Board was formed to support and attract business growth and development in the Kapiti and Horowhenua region. Four sectors were identified with growth potential: Distribution and Logistics, Service Businesses, Information and Communication Technology (ICT), and Food and Beverage. This report deals with issues affecting the Service Businesses Industry.

1.1 Introduction

The Service Businesses industry is a large and growing part of our national and global economy. The industry currently forms a significant part of our regional economy and represents 66% of Kapiti's and 57% of Horowhenua's GDP. This is contrasted with 71% nationally.

1.2 Objectives

The Growth Initiative Group Terms of Reference outlined the objectives as:

- Produce a stock take of the current Service Businesses in the region.
- Determine what are the regions resources/attributes that support the business initiative.
- Identify the current gaps and roadblocks preventing growth in the region.
- Recommend actions to fix/remove the gaps and roadblocks.
- Identify support resources and incentives available for existing and new businesses.
- Develop an initial selling proposition.

The Regional Business Growth Initiative Co-ordination Committee (RBGICC) has also adopted an overall goal of increasing employment in the region by 5% over 5 years.

1.3 Background on Industry

Service Businesses have the potential for increasing employment and growing the local economy if the services being sold are being exported out of the local region (nationally and internationally). Service Businesses have relatively low overheads, lower impact on the use of natural resources, less safety issues, and frequently do not require manual labour. Many Service Businesses do not require large amounts of highly skilled staff and can provide and support the training of unskilled staff.

2.0 Scope

The aim of the report is to identify sectors that have significant growth potential across the Service Businesses industry. Initially the scope of the report was to include all Service Businesses. Having scanned the regional services business landscape and through discussion with the RBGICC it became clear that this industry is too wide, and that more specific types / sectors of Service Businesses were desirable.

In the interest of clarity, Service Businesses are companies that predominantly sell services to make a profit. In contrast, business services are functions that are key to the successful operation of a business.

Within the industry there is private business, government, and non-profit organisations selling and/or providing services. The Growth Initiative have decided to focus this report on private sector businesses requiring services. There is potential for government to move elements of service delivery to the region, but this potential is not considered in this report.

3.0 Criteria

The criteria used to assess potential for growth was:

- The Service offered was exported beyond the region or has a realistic potential to be exported.
- Established successful businesses already in that service sector.
- Our region has a competitive advantage, or has a realistic potential to create a competitive advantage in this sector.
- The scalability of the sector to create meaningful and sustainable employment growth.

4.0 Service Sectors with Most Potential

Service Businesses sell a service to a customer at a profit. This can be contrasted with a company that sells goods to make a profit, or even a company that sells both goods and services. Irrespective of the goods or services being sold, internal functions are required for the business to operate successfully. These functions are generally known as business services e.g. payroll, accounting, human resources, customer service, IT, etc. These services can be run in house, or can be purchased from a company selling business services. For example: you can run your own payroll or use a payroll company to provide this function as a service.

The larger the organisation, the larger these functions become, and in many cases, also become more specialised. Also certain industries are more dependent on internal business functions, including more often than not, industries with high levels of regulation, complex end user technology, or frequent customer interactions.

4.1 With such a small regional pool of companies to assess against the above criteria, the process for identifying growth potential was straightforward. A review of the existing local businesses providing services that meet these criteria makes it clear that contact centres and business processing units are most marketable and have the most potential for growth.

4.2 Contact Centres and Business Processing Units met the criteria highly because:

- They export their services outside the region.

- There are three successful businesses in the sector at present.
- The region appears to have a competitive advantage.
- Infinitely scalable with services able to be offered nationally and into Australia, plenty of land and suitable workforce.
- Diversified across many industry groups helps offset fluctuations in the economy and within industries.

4.3 Contact Centres and Business Processing Units offer some of the following services:

- Inbound contact centres for customer service, product support, and/or sales
- Outbound contact centres for debt recovery, direct marketing and market research
- Financial Services to insurance, banking, and finance institutions
- Database management, payroll, and human resources

4.4 Larger businesses regardless of their industry type require these services for the efficient running of their operations. Though there is a trend towards outsourcing these services, most companies still provide these 'in-house'. For this reason it is very difficult to break out sector specific data.

Services to Aged Care was also noted as a strong sector, but is not a shared area of interest across the Kapiti/Horowhenua region and as such has been excluded from the Regional Growth Initiative.

5.0 Industry Profile - Contact Centres and Business Processing Units

In most cases larger companies have multiple sites for different types of contact centres and business processing, and will locate these services strategically across the country and off shore. Many business processing units do not require shared space with other parts of the business. Connectivity is achieved through ICT and customers rarely interface physically with staff.

5.1 Key Trends

5.1.1 Growth

Contact centres are growing nationally and globally as both internal business functions and outsourced functions.

> "The need for efficient customer service will spur growth in the global contact center market to $337.8 billion worldwide by 2018, according to a recent report from Global Industry Analysts (GIA)." Daily Mail, December 2012

As real time digital communication increases as well as online shopping, the need for contact centres has increased. Contact centres are becoming the chief delivery method for enquiry, sales, and support. The communication between business and customer is increasing as more methods of contact increase. Customer contact going forward into the future will be based on an omni-channel approach, including the use of:

- Apps
- Social Media
- Instant Messaging
- SMS
- Video Calling
- in addition to traditional methods of phone and email.

Business hours are no longer 9am to 5pm and customers now expect to receive service during all waking hours (7am to 10pm).

Traditionally early retirement has been a time of decreased spending but the 'Baby Boomers' are bucking this trend and are using the internet to spend more and more. Key products driving this trend are:

- technology and home computers
- online shopping
- luxury travel
- landscaping and home improvement

'Baby Boomers' have more discretionary income then any other age group. Servicing this bulge of spending over the next 20 years will drive even more need for quality contact centres.

5.1.2 Off-shoring

The relocation of contact centres to low wage economies has been a trend in recent years. High profile media coverage was given to several large businesses such as Telecom and Yellow when they off-shored their contact centres. Additionally several Australian companies have off shored their contact centres to New Zealand including ANZ, Canon and L'Oreal.

5.1.3 On-shoring

Not all companies are satisfied with off shore services. Z Energy found that an off-shored contact centre was at discord with their strong New Zealand brand identify, and presented a risk to growing their business. They have since relocated several business process units back to New Zealand.

5.1.4 Virtual Call Centres

Work-from-home staff are growing in this sector. Software as a Service (SaaS) and cloud computing are emerging as more agile and efficient method of providing customer contact. This also enables companies to manage their business functions remotely without needing to increase bricks-and-mortar sites. Telecom is utilising this opportunity for controlling demand through bringing at-home staff on at peak contact times.

5.1.5 BPO's

The growth in this sector creates an opportunity for Business Process Outsourcers (BPO's). BPO's provide contact centres and business processing functions on an outsourced basis. This can be a complete service, or an additional service such as outside normal working hours or in case of an emergency. The benefit of using a BPO include:

- Scale
- Technology Advantage
- Quality

In particular, SME's need to provide high levels of service at a competitive price to meet customer needs. They would not be able to provide such high levels of customer care without using a BPO for increased efficiency and cost reduction. Additionally many BPO's are technology providers and are therefore able to offer a higher level of efficiency and more advanced services. Telnet is a large player in New Zealand.

5.2 Critical Success Factor - Contact Centre

5.2.1 The most significant business processes relate to customer service and support as well as documentation, sales and data collection. Many of these functions are grouped into a contact centres for either inbound or outbound communication with customers or potential customers.

5.2.2 The three critical success factors for contact centres are:

1. Business processes
2. Technology
3. Human resources

Customer Relationship Management (CRM) systems are software apps that integrate business processes with a company's sales and service offerings to provide one central database and tool for managing and maximising the value of all customer interactions.

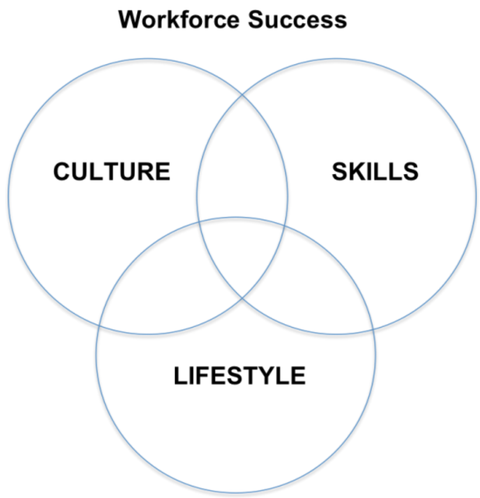
The technology that is needed to support a contact centre includes access to high speed internet, electricity backup, and integration between communication technology and the CRM being used.

Human Resources are the most essential and also the most difficult element of the equation. Though contact centres do not require highly skilled staff, they do require specific skills and a motivated professional workforce. Wages for contact centres are generally at the national level and can be demanding. This combination of requirements can lead to poor performing units and high staff turnover. This is a global issue with contact centres.

> "The experience a customer gets and the results a company achieves on a given call are almost totally dependent on the quality of the agent answering that call." Fleming, J., Coffman, C., Harter, J. (2005) Manage Your Human Sigma, Harvard Business Review

5.3 Contact Centre – Workforce Performance Model

Figure 1



CULTURE: Combining a workforce culture that supports professionalism, aligns to customer desires such as English as a first language, and is integrated into the wider company culture is crucial to success.

LIFESTYLE: When a contact centre is situated in an affordable and attractive location the contact centre has stronger workforce appeal. This is further reinforced if the location is not prone to labour market competition from higher wage sectors or locations. Additionally, the target workforce appreciates flexibility and professionalism. This may not be available in other roles in less urban locations.

SKILLS: Most contact centre and business process roles require a medium skill level that can be achieved in a local educational environment (or even online). Much of the training required can be delivered onsite. Lower staff turnover encourages investment in people, training and support.

When workforce culture, skills and lifestyle all exist along with appropriate technology/software and business process design, a successful and high quality contact centre is created. Loyalty of staff in this ideal environment helps grow onsite training, better career pathways and supports the retention of institutional knowledge.

6.0 Current State of Play

Kapiti has no businesses or business units in this sector at present though there is a history with this industry that is valuable for assessing growth potential.

Horowhenua has two major players and one more modest member of this industry. These businesses provide customer support and sales for their parent companies. No virtual call centres or BPO’s are currently located in either District.

7.0 Discussions with Key Businesses in the Region

With a limited pool of existing businesses, each business was approached for discussion and asked to share how their business is functioning in Horowhenua. To broaden the pool of information Vodafone was also approached to discuss the experience of the previous Telstra contact centre in Paraparaumu. Likewise Telecom was approached to discuss the closure of their Lower Hutt contact centre.

Businesses were asked several key questions around business success and failure, as well as potential for growth and supporting resource requirements.

7.1 State Insurance

State Insurance runs a highly successful and growing contact centre in Levin. They have received numerous awards over the years. What they do:

- Provide contact across NZ and all calls originating in the Lower North Island.
- They are the back up call centre for other State contact centres.
- They employ about 45 staff and have very low staff turnover. This institutional knowledge in long-term staff has enabled them to offer very high levels of service in an industry that has undergone significant regulatory change and customer scrutiny after the Christchurch earthquakes.
- They site good culture within the unit and flexible working hours as creating an environment that stops people wanting to leave.
- Staff were considered loyal and hardworking. They have never had a problem finding staff when needed.
- Horowhenua's technological infrastructure supports the business' current needs.

7.2 Contact Energy

Contact Energy runs another successful contact centre in Levin which boasts a cabinet full of trophies. Success of the call centre is integral to the company brand. Their brand strategy doesn't rely heavily on advertising, but instead uses the call centre to promote the brand values. Energy retailers do not have many face-to-face interactions with their customers and therefore rely heavily on customer loyalty generated through high quality contact centres.

- Careers pathways are important at Contact. Current manager started with Contact by answering the phone.
- They had zero turnover in the previous financial year and when needed have no problem finding suitable staff.
- Technology is well catered to.
- Lower overheads in Horowhenua were attractive (in contrast to higher rents in larger city centres).
- Starting salary is standardised across the country at Contact making wages higher than the Horowhenua average.

7.3 Oxford Finance

Oxford Finance provides financial services to the motor vehicle industry along side commercial loans and personal loans around the North Island. They employ over 20 staff and are focused on selling their services outside the region. By tapping into larger urban centres, in particular Auckland, Oxford Finance are exporting their unique product offering. Loyal staff and reliable workforce creates a platform to support the business' growth. Similar to the energy sector, the services offered do not require face-to-face contact with customers.

7.4 Telstra Kapiti

Discussions were had with management from the old TelstraClear site in Paraparaumu. Management now work for Vodafone who acquired Telstra in 2012. These discussions highlight some stark lessons on how to misjudge potential. Though there was much to recommend Paraparaumu as the perfect site for a contact centre, they summarised this experience with the comment that "Those with get up and go, get up and go." i.e. Paraparaumu was so close to Wellington that quality staff preferred commuting to achieve higher pay. The issue of staff was so overwhelming that the contact centre was chosen to be closed when the company off-shored a portion of its contact centres to the Phillipines in 2010. At the time diplomacy prevented genuine dialogue on why Paraparaumu was chosen over other Telstra contact centres.

The misjudgements related to staff. On the surface Kapiti does appear to have the right workforce to meet the needs of medium skilled contact centre staff. However what was found by management at Telstra was that those people who were professional and motivated were able to make significantly higher wages in Wellington working in medium skilled roles. The dynamics of the local workforce meant Telstra were unable to attract the workforce they needed to achieve the level of performance they required.

Key issues were:

- Lack of professionalism
- Dysfunctional family networks all working together
- Union influence
- Hostile staff/management environment
- High staff turnover

These issues created a downward spiral of results that Telstra was never able to pull out of. The poor performance of the contact centre was a source of continuous frustration.

7.5 Telecom Lower Hutt

Telecom's Lower Hutt contact centre suffered similar results and ended in a similar fashion to Telstra for many of the same reasons. The ability for medium skilled staff with professionalism and motivation to earn higher wages next door in Wellington Central meant that it was hard to retain staff. Without quality, professional, and motivated staff, a contact centre does not function well.

Telecom also mentioned that they desire a connection and alignment between local education providers and their individual contact centres. This assists with finding quality staff.

8.0 Common Ground

- Workforce appears to be the key to success.
- Medium skilled workforce are not difficult to find but hard to retain if better opportunities arise.
- Medium skilled employees are highly mobile as their skills are transferable across many industries.
- Lower operating costs in Horowhenua underpin the success of the local contact centres.
- Contact centre wages are significantly higher than Horowhenua's average wage.
- The flexible hours and higher wages appeal to females.
- Contact centres in the Horowhenua are a professional place of work with no manual labour required and no associated costs such as commuting and parking.

9.0 Barriers to Growth

9.1 Kapiti specific barriers:

- Limited potential for Kapiti due to the ease of access to Wellington's higher paying jobs for medium skilled workers.
- Contact centre wages are lower than the average wage for Kapiti.
- Higher cost of living in Kapiti makes contact centre wages less attractive.
- Perceptions of success and failure impact the potential to attract new contact centre business to Kapiti.

9.2 Horowhenua specific barriers:

- Lack of awareness of the region's workforce assets.
- Poor perception of region.
- Lack of appropriate commercial buildings and supporting infrastructure.

10.0 Key Findings

10.1 Existing Drivers of Success

- **Workforce:** A suitable supply of medium skilled workers with limited labour mobility was identified as the ideal group to undertake roles within this sector. As wages are standardised across the country in this sector, staff are at an advantage in small towns where their income is above the regional average, and at a disadvantage in larger centres where their wages were below the regional average. Loyalty from staff was key driver of service delivery. Companies were more willing and able to provide training and career pathways if staff turnover was low. Institutional knowledge was a key to being able to provide a high quality service.
- **Cost of Operations:** A low cost environment in a small town made operating the unit more efficient (profitable) than an urban region with high rents.
- **Infrastructure:** The technology and infrastructure needed by the industry was available and adequate in the region.
- **Flexible Capacity:** Local workforce appreciates work flexibility and does not necessarily rely on a fulltime wage. They are happy to work flexible hours and work from home.

- **Physical Location:** From a workforce attraction perspective Kapiti is too close to the high wage centre of Wellington. Horowhenua is far enough away from Wellington not to compete for medium skilled jobs. Palmerston North does not offer jobs in this category at any higher wage than Levin. On the plus side, the region's access to corporate offices in Wellington as well as Kapiti Airport and Palmerston North Airport make it easy for management and technicians to visit as needed while also maintaining cross-functional working relationships.

Workforce is the most important element of a successful business processing unit. Staff are the key to success and failure. They can create a well-oiled high achieving team of caring professionals, or, they can get mired in grievances, negativity and sloppy performance. The skills required to succeed in the industry are not difficult, but there is a certain level of professionalism required.

10.2 Additional assets of the Region

Though these following assets were not directly specified by current businesses, they have been assessed as positive attributes for the attraction of more contact centres in the region.

- English first language: Residents of Horowhenua are more likely to have English as their first language. This is less likely in large urban centres and off shore.
- Adequately educated workforce: The region has the right level of education for these types of roles and more medium skilled workers than the national average
- Professional, non-manual labour role: There is a lack of non-manual labour jobs which promotes contact centres as more desirable amongst females and aging workers. The professional environment is appreciated and valued more highly in Horowhenua than locations where most people engage in office based employment.
- Time zones with Australia: Not unique to Horowhenua but still an advantage is the close time zones with Australia which support the opportunity for Australian companies to locate their contact centres in New Zealand.
- Cultural fit with Australia: As with time zones, the cultural fit of a similar shared language and values makes the quality of service in a contact centre higher than locations with a different language and culture.
- Disaster Relief safety zone: Business continuity during a crisis is paramount to running a contact centre. With earthquakes having highlighted the importance of communication during a crisis, a contact centre must be able to sustain limited damage and become operational as soon as possible after a crisis hits. Horowhenua is the closest region to Wellington that is comparatively safe from earthquake damage, tsunami risk and coastal storm damage. Basing a contact centre in Horowhenua creates a risk mitigation strategy that ensures business continuity in the event that Wellington is the centre of the crisis. There is access to the city from Horowhenua without being directly effected by the emergency.

11.0 Recommendations

11.1 From the information gathered in this report it would appear that the attraction of more contact centres and business processing units to the region will increase investment and create jobs in an area that is lacking employment opportunities at present. More medium skilled non-manual labour jobs are desirable for the community. These are frequently attractive to females, provide convenient secondary income options, and also appeal to the aging worker who doesn't want to perform manual labour, while also having little negative impact of other parts of the local economy.

11.2 Though commercial land suitable for building office premises will need to be identified, and developers will need to be approached about feasibility, there is little to dissuade us from pursuing these business opportunities. The risks do not outweigh the potential. It is the view of the author that risks associated with workforce mobility can be managed.

11.3 Business attraction will require the development of a marketing and selling strategy. This will need to be discussed with key businesses.

11.4 An assessment of appropriate land and/or buildings in Levin is required. This will assist to identify options for new development and/or the redevelopment of current buildings to promote a dedicated precinct or cluster specific to industry needs. Developers need to be approached about their capacity and desire to be involved, and what access to capital will be needed to fund these developments.

11.5 The Council needs to take a long term view of the potential and assist these targeted companies in relocating or setting up a new unit in Levin. There is potential to align Council's planning with any redevelopment so that infrastructure is appropriate to future needs of this sector.

11.6 Engage with local education providers on the current level of enrolment in courses that support the sector and the potential to increase and align the courses to more specific sector needs. Gage the size of the current pool of talent and the future size based on enrolments and new residents that might fit the skill level. Take a critical eye to future workforce mobility if the sector were to grow to fast.

Next Steps

Though businesses have independently decided to set up in Kapiti and Horowhenua, the best way forward to create momentum and to assist the growth process is to join the dots and create a strong business case. By creating a pathway we make decisions much easier for interested parties.

Building the business case will require:

- Compile a list of potential companies for relocation including existing contact centres and business processing units
- Approach technology and software providers who set-up and service contact centres
- Create a feasibility plan around development /redevelopment of commercial premises

- Work with the local tertiary sector to create an education and training plan for the industry
- Approach land developers
- Approach target companies about the potential and relocation opportunities including a sector precinct
- Approach BPO’s about setting up a unit specific to business continuity in the event of a major emergency

Addendum

Government potential

The brief for this report excluded government but it must be noted that much of government service delivery will be similar to private business. With this in mind there is much potential to be explored in targeting the government sector once the private sector initiative is underway. The government is more risk averse and it may be of benefit to get 'some runs on the board' with the private sector. The development of a precinct will create some certainty for government departments in assessing the potential of relocation.

A key sector that was highlighted in the research undertaken for this report was the emergency preparedness sector in the event of a catastrophic event in Wellington. Horowhenua is physically well located to remain more structurally robust in the event of an earthquake or tsunami. Business continuity can be better assured and access to Wellington Central is simply a helicopter ride from Ohakea Airbase.