

Case Study: Reduced Costs and Improved Performance by Restructuring Vendor Contract

North American Heating, Ventilation and Air
Conditioning (HVAC) Service Company



“ The 24% annual savings (\$2.1 million) that COPC Inc. found for us far exceeded our expectations. Not only were we able to reduce our costs, but we now have a performance-based model, designed to drive high levels of service for our customers. ”

— VP Operations

About The Client

Service Experts LLC is a leading North American Heating, Ventilation and Air Conditioning (HVAC) service company, part of Lennox International Inc., and has over 3,000 employees across 100 service locations. The company offers 24/7/365 customer service support, which is handled by a third-party vendor in two North American sites. In addition to customer service calls, the vendor is also responsible for inbound/outbound sales transactions, emails, web inquiries, fax and white mail.

Challenge

Service Experts' contract with its vendor had expired and the vendor was requesting a significant rate increase. The company was unsure if the increase was reasonable and believed the level of service was poor. The original contract was written from the vendor's template with some one-sided term. It only included two to three performance metrics, so there was minimal accountability for the service provided to customers. There was internal pressure to improve performance and keep costs contained. Service Experts could not change vendors due to technology issues, so believed it had no negotiating leverage. The company's leadership team asked COPC Inc. to conduct a contract review and help with contract negotiation.

Improvements

Achieved \$2.1 million savings per year, which was a 24 percent annual savings.

- Restructured contract to focus on performance
- Changed the pricing model from a price per payroll model to price per production hour or handle minute model (depending on the transaction type). This decreased costs and drove the vendor to improve its workforce management process
- Implemented comprehensive performance metrics and targets
- Made recommendations to address dialer inefficiencies of >50 percent agent unproductive times

Discovery

COPC Inc. conducted targeted assessments based on the COPC Customer Experience (CX) Standard for Vendor Management Organizations (VMOs). Assessments were conducted of its vendor contract, performance metrics and vendor invoices. Specific processes such as Workforce Management (WFM) and the outbound dialer were also assessed onsite.

- **Contract issues:** COPC Inc. identified unfavorable contract terms resulting in high costs and minimal focus on performance. Service Experts was overpaying because the vendor was charging for the maximum allowable head count based on price per payroll hour versus price per production hour or handle minute. This pricing model incited the vendor to be inefficient and inaccurate.
- **Lack of Performance Metrics:** Many metrics were not in place or had no targets, and the vendor was not held accountable for performance. Metric definition and data integrity issues were also abundant.
- **Ineffective Workforce Management:** Because of the pricing model, the vendor did not have a structured WFM process, causing over-staffing and periods of poor service levels, lower customer satisfaction and reduced sales opportunities.
- **Invoicing/Billing:** Significant discrepancies between time billed and the limited reports were found. There were also significant integrity issues with reports provided by the vendor to substantiate charges to Service Experts.
 - **Outbound:** Billed hours could not be verified because payroll hours did not map to time on the dialer. Outbound campaigns were inefficient with unproductive time often greater than 50 percent. Service Experts was paying for this time.
 - **Staff Time:** It was impossible to verify actual staff time versus time billed to Service Experts.
 - **Attrition:** Attrition was measured incorrectly and seasonal attrition was inaccurately tracked. No required data from the vendor was provided to validate invoices or reconcile training required due to attrition versus other types.
 - **Programming/Technical Support:** The vendor was billing for programming time without any documentation.

Action & Deployment Plan

COPC Inc. helped Service Experts implement changes to reduce costs and improve performance.

- **Restructured and negotiated vendor contract:** COPC Inc. drafted a new SOW to address the unfavorable terms. COPC Inc. also supported negotiation of the new contract terms.
- **Risk/reward model:** COPC Inc. designed a risk/reward model to improve accountability and motivate the vendor to achieve high performance levels.
- **Metrics and targets:** New and comprehensive metrics were implemented, including correct calculations, targets and definitions.
- **Changed the pricing model:** The pricing model was changed from a payroll hour to price per production hour or handle minute model, causing the vendor to develop a more effective WFM process. This ensured that Service Experts paid only for productive hours.
- **Improved issues associated with invoicing:** COPC Inc. identified opportunities to improve future invoice accuracy and reconciliation.
 - **Outbound:** Required that outbound work be closely monitored and minimum productivity targets be established to ensure the dialer was not used as an area to assign unproductive staff.
 - **Staff Time:** Root causes of the inaccuracies in the staff time reports were identified. The vendor was required to correct them and provide them in a usable format.
 - **Attrition:** Required attrition to be reported as an annualized number (vs monthly)
 - **Programming/Technical support:** Clearly defined billable activities, established documentation requirements and negotiated a lower rate.
- **Improved workforce management process:** The vendor was required to implement a 60 day staffing plan with reviews and updates at 17 days so scheduling adjustments could be made. Metrics were instituted to measure staffing accuracy and both groups agreed to partner more effectively on necessary updates and short-notice changes.

Benefits

As a result of the new agreement, Service Experts was able to implement a more effective governance model to significantly reduce costs, and drive higher levels of performance. For example, significant issues were found with the outbound dialer strategy, impacting costs to Service Experts. Outbound efforts were not closely monitored and the dialer was often used to place staff when inbound volume was low. The levels of inefficiencies are shown in Figure 1.

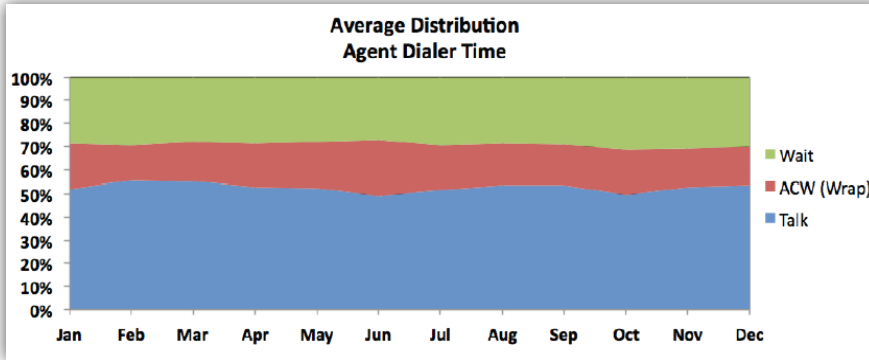


Figure 1

- Nearly half of agents' time was spent in an unproductive state
- Service Experts paid for all of this time, whether productive or not
- COPC Inc. solved this by requiring an agreed-upon dialer utilization percentage to ensure dialer hours were spent productively and effectively

The vendor is now held to greater accountability. A risk/reward model is also now in place to drive performance and ensure Service Experts and the vendor's priorities are aligned. Integrity issues in reported results were identified and corrected, so invoicing and performance measures accurately reflect performance of the business. Now Service Experts has a much clearer understanding of how the business is performing. **All these actions resulted in an annual savings of \$2.1 million to Service Experts.** See monthly cost reduction when using the new pricing model in Figure 2.

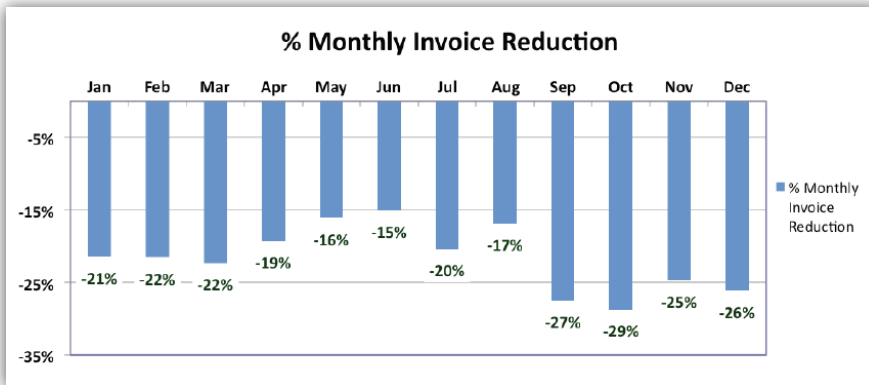


Figure 2

- Service Experts achieved an annual savings of 24 percent
- Savings on a monthly basis ranged from 15 to 29 percent

About COPC Inc.

COPC Inc. provides consulting, training, certification, benchmarking and research for operations that support the customer experience. The company created the COPC Standards, a collection of performance management systems for customer experience operations, customer experience management, vendor management and procurement. Founded in 1996, COPC Inc. began by helping call centers improve their performance. Today, the company is an innovative global leader that empowers organizations to optimize operations for the delivery of a superior service journey. COPC Inc. is headquartered in Winter Park, FL, U.S. and with operations in Europe, Middle East, Africa, Asia Pacific, Latin America, India and Japan. www.copc.com.

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