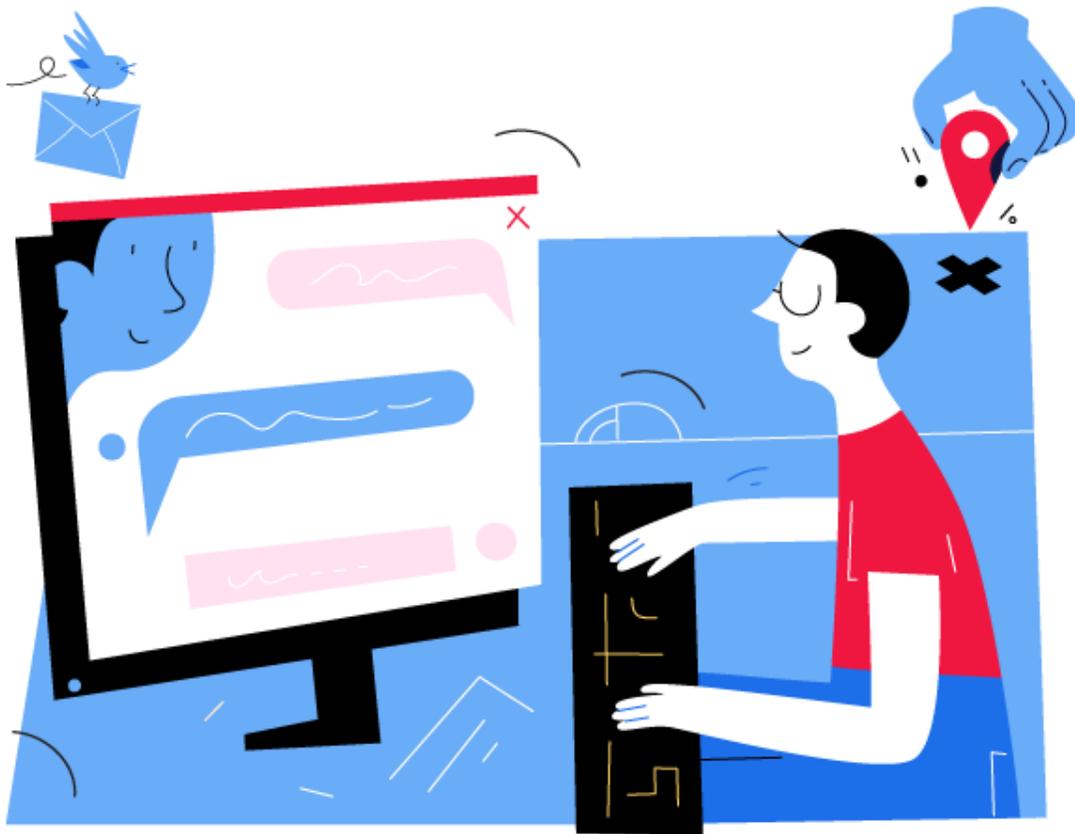


# Contact Center Pipeline

## Locating Contact Centers in the New Normal

Brendan Read / Feb 2022



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### **Labor market pressures could bring contact centers back to the U.S. or to nearshore countries.**

The COVID-19 pandemic, combined with tightening labor markets and rising customer expectations for higher quality service may be changing the face of contact centers.

Gone may be the days where contact centers were almost exclusively defined by densely packed rows of agents with roving supervisors looking over their shoulders and providing help.

Centers that were increasingly being located offshore, principally in India and secondarily in the Philippines.

The pandemic-spawned New Normal appears to be of agents working from home (WFH) from anywhere, and who often are connected to supervisors, colleagues, and customers over video (see November 2021 Contact Center Pipeline).

These agents may, depending on the company and where they live, occasionally travel in for meetings, training, and work at their old centers, a practice now known and popularized as hybrid working.

Indeed the term “contact center” is migrating to refer to agents providing sales, service, support, and billing, rather than the actual place where they are performing these tasks.

However, there will, for many organizations, continue to be a need to provide a place for contact center staff to work together on-site, whether to foster teamwork, loyalty, data security concerns, or client preferences, whether for full-time, part-time, or hybrid working.

The questions then become where best to locate on-site contact centers for in-house operations and business process outsourcers (BPOs) alike? And what are the best practices in their design in this New Normal?

To find out we turned to three leading contact center site selection professionals: Susan Arledge, Executive Managing Director, Site Selection, ESRP, John H. “Jack” Boyd, Founder and Principal of The Boyd Co., Inc., and King White, Chief Executive Officer, Site Selection Group.

## **Q. What are, rank, and discuss the top three trends impacting contact center site selection?**



*Susan Arledge*

Recruiting is definitely the top challenge impacting contact centers, but there are other factors caused by the pandemic that are also impacting them:

1. Firing instead of hiring.
2. High volume hiring.
3. Difficulties filling jobs.
4. Digitization of recruitment.
5. Hiring budgets cut.

Wages today are historically low: lower than at any point in the second half of the 20th century. The two main causes are corporate consolidation and shrinking labor unions, which together have given employers more workplace power and employees less of it.

Also, the share of working age Americans who are actually working has declined in recent decades with a pool of would-be workers sitting on the sidelines of the labor market.

At the same time, corporate profits have been rising rapidly and now make up a larger share of gross domestic product (GDP) than in previous decades.

As a result, most companies can afford to respond to a growing economy by raising wages and continuing to make profits, albeit perhaps not the unusually generous profits they had been enjoying.



*John H. Boyd*

1. Labor market considerations. The labor market today is extremely tight due to a wide range of factors. These include inflation and rising gas prices that are making it less desirable to commute to work and the lingering effects of extended federal unemployment benefits.

There are also concerns about contracting COVID-19, as well as reluctance over employee testing and vaccine mandates among large blocks of the entry-level workforce.

Today there is the “Great Resignation dynamic” where more employees are reluctant to work in lower-paying jobs in fields like hospitality, warehousing, retail...and contact centers.

In response, many of our contact center clients are offering generous hiring incentives, such as hiring bonuses, referral bonuses, childcare benefits, flexible WFH options, and all-time high-performance awards.

2. Incorporating artificial intelligence (AI) into the contact center without disrupting company culture and operations.

3. A focus on nearshoring out of more remote places like India, Southeast Asia, and Eastern Europe into low-cost options closer to the U.S. These options include Canada, the Caribbean, Mexico, and Central American locations like Costa Rica.



*King White*

1. WFH is clearly the top issue facing global contact center site selection. Companies are trying to determine the optimal WFH model, which includes from 100% virtual to hybrid hub-and-spoke. The one that is chosen will impact facility size and design as it is based on the ratio of WFH to on-premise employees and that will vary company-by-company.

Some companies are only sending their top-performing contact center agents home, which might only be 20% or less of their staff, and which would reduce the facility footprint by 20%. This is the more traditional WFH model that many companies had already implemented pre-COVID.

But post-COVID, the most popular model has shifted WFH to 50% to 80% of their staff. This is a true hub-and-spoke model. A typical example would be 100 seats with two or three training rooms to support a 500-employee contact center. So 100 employees in the facility in training and then nesting 400 WFH employees. The impact on the square footage is pretty dramatic as a result.

2. The labor shortage is a huge issue both domestically and internationally. When will labor markets ease? The U.S. stimulus has expired but there are still no workers.

3. Nearshore growth has been massive. But is it sustainable? And can these countries' labor markets support it?

Labor conditions are tight in the nearshore markets. The demand for bilingual agents in Latin America markets is the greatest and the most challenging of this factor so wage inflation is up to meet demand.

The good thing is the Latin American cities have much greater populations, which provides longer term scalability: so long as the universities are there to output English-skilled agents.

Meanwhile, Caribbean cities are smaller, so they are less scalable, other than 100% of their workforces speak English.

But both Latin America and Caribbean labor markets will be strained for further growth in a few years if their current expansion continues.

**Q. The U.S. Bureau of Labor Statistics (BLS) released its Employment Projections 2020-2030 in September 2021. Amongst its predictions is an increase in the labor force but a decrease in the labor participation rate, and a modest**

## **reduction in customer service representative employment. What is your reaction to the report and what are the implications for the contact center industry?**

Susan Arledge: As of May 2020, the median hourly wage for customer service representatives was \$17.23 according to the BLS report.

While many BPOs have already raised agent wages to \$17-\$18/hour, many of them are considering nearshore locations due to the availability of low-cost English-speaking agents.

John H. Boyd: The relative stability of the contact center industry projected by the BLS over the next decade underscores how it is underpinned by so many parts of the global economy e.g., healthcare, finance, tourism, energy, tech, online retail.

The BLS projection for stable or no job growth suggests to me that more draconian job projections linked to AI and foreign outsourcing are overstated; the exodus of contact center jobs to popular offshore countries like India and the Philippines has pretty much run its course.

The continued boom of online eCommerce, especially in developing nations where major players like Amazon, Walmart, and Target are aggressively targeting new market share, is another support dynamic for the industry that is starting to play out.

Social impact motives for the banking industry investing in developing nations like in Africa, Asia, and South and Central America will also create more demand for enhanced customer service activity.

We are seeing this develop in South Florida: where major banks and non-fungible token (NFT) players are clustering to serve growing markets in Latin America.

As minimum wage increases are popping up throughout the U.S.—along with remote work options favored by many contact center workers—we see the contact center industry becoming a more popular employer of choice in many communities versus other entry-level options in the retail and hospitality sectors.

King White: We utilize BLS data for a lot of our analyses. However, we do not use it for their classification of “Customer Service Representative” because it reflects all customer service positions, not just contact centers.

Retail is the biggest portion of these workers. But retail is declining. So you really can't use this data for contact centers. That is why we developed our own contact center employment database that tracks specific employers with headcounts. See this blog as an example.

## **Q. Do you expect contact centers to expand the number of seats and facilities post-pandemic at the same, greater, or lower rate as compared with pre-pandemic? Or are you forecasting a shrinking number of seats and centers?**

Susan Arledge: More contact centers over the next few years will be utilizing a hybrid work environment, anticipating that 50% of the workforce will be on-site and the remaining 50% will be remote/WFH.

However, there are concerns that WFH will be a long-term successful strategy. Behavioral scientists are betting everyone eventually will go back to the office for the following reasons:

- **The Allen Curve.** Thomas J. Allen, a professor of management at the Massachusetts Institute of Technology (MIT), discovered in the 1970s that communication between people in an office increased exponentially the closer their desks were. If they were about 50 meters apart, they might as well have been on different planets. Even in the age of email, Slack, and Zoom, the fact remains that out of sight is often out of mind. And if some employees are seen only at video meetings, there is less chance the rest of the community will value them.
- **Trust.** As distance increases, teams need higher levels of trust to function. When we are face-to-face, trust is a basic part of the interaction, as in the side conversations we have between meetings. But while sitting at home, it would be natural for people to resent those at the office getting snacks or catered meals and having more quality time to impress the boss. Ultimately, a two-class system has the potential to develop.
- **WFH can be too convenient.** Things that are aren't necessarily good for us. Lifting weights is hard, but it makes us stronger. Having some commuting time, whether walking, on public transit, or in a car, gives us an opportunity to let our minds wander and explore ideas. You have time to process.
- **Belonging.** One of the greatest predictors of our longevity is whether we have close social ties. It is clear that we are not designed to be alone. Our levels of oxytocin, a hormone that is released during moments of togetherness (such as hugging), also increase when we enjoy a team success or even when we march in unison.

But the most critical factor in determining the number of contact center seats, whether on-site or at-home, is the long-term shortage of labor to fill them. Here are the causes:

- Mass exodus of Baby Boomers from the workforce.
- Record low worker participation rates among the working-age population.
- Lowest birth rates in U.S. history.
- Inverted relationship between employers and prospective employees. This refers to prospective employees now having the power to impact the salary, concessions, and

terms of their employment, which have typically been decisions of company management.

- Work/life balance is more important than ever to the younger generation.
- Pandemic-exhausted employees, in huge numbers, are reprioritizing their lives and leaving their jobs.

John H. Boyd: We are seeing contact centers become less labor intensive and have less seats as companies adopt AI and allow more workers to WFH on a hybrid basis.

“We are seeing contact centers become less labor intensive and have less seats as companies adopt AI and allow more workers to WFH on a hybrid basis.” ~John H. Boyd

Historically, the contact center industry was one of the first sectors of the economy to successfully employ WFH models, led by contact center-using firms like the Home Shopping Network in St. Petersburg, Fla. that employed hundreds of workers taking calls from their homes in and around the Tampa Bay area.

Wage growth is a major factor as companies are facing unprecedented difficulty staffing contact centers. Contact center wages were increasing prior to the pandemic as minimum wage increases at federal, state, and provincial levels were implemented. But since the pandemic began, we have seen contact center wages climb by as much as 10%-15% in many U.S. and also Canadian cities.

With respect to population one of the great themes of the pandemic has been the great migration out of high-tax and high-cost-of-living locations to lower-tax and lower-cost-of-living cities.

This trend has had a highly disruptive impact on labor forces in many urban areas with low or no population growth; markets like Chicago, Baltimore, and Detroit are having a very difficult time staffing contact centers.

The pandemic has also hurt Canadian labor markets especially hard.

Canada's population grew last year by less than a half of a percent: the slowest pace in more than a century as COVID-19-related restrictions curbed immigration, which has been traditionally a prime conduit for labor market growth in Canada.

King White: We do believe the demand for contact center office space will be flat to negative through 2022.

There continues to be uncertainty to what companies will do with their contact center facilities and how to deal with labor conditions.

There hasn't been a massive exodus of companies exiting these buildings. Instead they are taking a wait-and-see approach. We do believe we will see positive growth in 2023 as labor markets stabilize and nearshore labor conditions tighten.

## DESIGNING TO PROTECT EMPLOYEES

Humans are social animals. And the case has been made for that reason about the value of working on-site in offices and office-like settings: like contact centers.

But the deadly COVID-19 virus, including its continually developing variants, has brought home once again, (literally), the long-known hard fact that anywhere particularly large numbers of people congregate, especially indoors and for long periods of time, fosters the spread of communicable diseases.

So as COVID-19 hopefully begins to wane, but knowing there are other easily transmittable diseases still out there, like influenza, and that the next pandemic is only a headline away, how can organizations that seek to have their contact center employees on-site adjust and design their facilities to prevent or limit the spread?

John H. Boyd, The Boyd Company reports that his firm's most recent U.S. contact center projects average over 100 square feet per workstation. But he expects that ratio to increase due to changing workplace preferences, as well as companies wishing to avoid future shutdowns: while having the ability to offer an acceptable degree of social distancing should another pandemic arise.

"Unlike corporate headquarters space, less costly Class B contact center space can allow a company to do a cost-benefit analysis and likely determine that keeping some excess space and decreasing employee density is an affordable and prudent move," said Boyd.

One of the positives he said to emerge from the pandemic is new airflow technology that provides enhanced protection from future outbreaks as well as from the lingering COVID-19 virus. Hotels, hospitals, and the airlines were quick out of the gate to adopt and promote use of these new airflow systems.

"We are now seeing employers like major fulfillment centers in the eCommerce space and in the contact center industry promote the use of these systems as a recruiting and retention tool," says Boyd.

## **Q. Where will North American customer-serving contact centers be located post-pandemic, i.e., onshore, nearshore and offshore (countries, cities/metro areas), for what types of functions and companies, and why?**

Susan Arledge: Many contact centers are seeking locations in Latin America and the Caribbean to find low-cost English-speaking agents. Jamaica has been attracting a significant number of BPO companies, due to its large number of English-speaking people and lower wages.

John H. Boyd: We are seeing strong interest on the part of our contact center clients in the Dominican Republic--Scotiabank's new customer support center in Santo Domingo is a shining star example of COVID-era nearshoring—as well as in Puerto Rico, Jamaica, and Colombia.

These locations offer bilingual skillsets and are well-positioned to serve one of the fastest growing markets for banking, tech, and life sciences industries: which is the Latin American and Spanish speaking markets.

Canada is also a player on this front as it continues to enjoy operating cost savings associated with a favorable exchange rate and its healthcare system, as well as proficiency in English and common business practices.

We've been especially active recently researching opportunities in leading college towns in Eastern Canada. These include markets like Kingston, Ontario—home of Queen's University, Fredericton, New Brunswick—home of the University of New Brunswick, and Halifax, Nova Scotia—home of Dalhousie University.

King White: The Philippines will be impacted the most going forward. Companies realized they had too many eggs in one basket when COVID hit.

As a result, nearshore locations have been expanding rapidly. However, the labor conditions in nearshore markets have become very tight. This will likely push growth in the U.S. in 2023 and beyond.

## **Q. What are your recommendations to contact centers that are considering adding/expanding, consolidating, and modernizing their facilities?**

John H. Boyd: Don't be afraid to go hybrid. The brick-and-mortar cost savings are enormous for companies that shed excess real estate and today's labor force prefers the flexibility of WFH at least part of the time. In fact, I had one HR manager tell me "Working from home is the new American Dream."

I would also add that for entry-level positions it is more necessary than ever to convince new hires that, unlike other options in retail or hospitality, there will be ladders for meaningful advancement working in a contact center.

King White: There continues to be a lot of uncertainty in the market. Ideally, companies should wait until the second half of 2022 and beyond to make long-term location decisions. We anticipate market conditions both domestically and internationally will stabilize by then.

In the U.S., the contact center facility size is trending smaller to an average of 300 seats versus 500 seats pre-COVID.

Companies are really embracing the hub-and-spoke model so that their employment counts will be the same but spread out amongst smaller facilities.

***Brendan Read***



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