



AT&T: TELEMARKETING SITE SELECTION

Doug Roth prepared this case under the supervision of Professor Peter Bell, Richard Ivey School of Business, the University of Western Ontario, solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In 1986 AT&T found itself in a very different market from the one in which it had held a monopoly position during the 1970s. Competitors were pouring billions of dollars into new communications networks, with the result that AT&T's strong technological advantage was narrowing and looked as if it would soon disappear. AT&T saw fierce price competition for telecommunications hardware and services in market areas where it had once reaped healthy profit margins. Traditional areas of AT&T's business (telephone calls and telephone sets) were about to become low margin "commodity" businesses, where price would become the main factor used to choose among otherwise similar long distance companies.

In response to this dramatic change, AT&T developed a new strategy focused on targeting opportunities for new communications "products" which would exploit AT&T's ability to package complex communications systems. AT&T now thought in terms of marketing complete business communications hardware and software products which included telephone sets, exchanges and switches, 800 service numbers, and call packages. Development of such products made use of AT&T's considerable in-house expertise which, it was hoped, would differentiate AT&T from its competitors in this price-sensitive marketplace.

AT&T identified the rapidly expanding telemarketing industry as an ideal communications market segment to target. How could AT&T develop a "telemarketing product" which would provide a competitive advantage and enable AT&T to attract new telemarketing clients?

AT&T Company Background

AT&T was a full-service telephone company that offered products and services including long distance calls, telephone sets, exchanges, toll-free 800-service, as well as many other products and consulting services that went far beyond simply handling actual calls. AT&T worked with clients to decide the best equipment to meet their telecommunication needs based on demand forecasts, numbers of employees, funds available, etc..

AT&T held a monopoly position in the long distance telephone market in the United States until 1984. At that time regulatory changes permitted new entries and forced AT&T to undergo the largest and most publicized corporate divestiture in history. The overall effect of these legal and regulatory changes included a loss of market share from a monopoly position in the early 1970s to less than 50% of long distance and telecommunication equipment sales by the mid-1980s.

AT&T's business strategy was to look for ways to differentiate its products and services by stressing the extra value AT&T added to otherwise commodity like products and services, and to look for ways to establish unique advantages in its marketplaces.

One area of substantial growth beginning in 1986 was the telemarketing industry which was spending some \$20 billion a year on communication services, and expecting growth of 10 to 15% throughout the 1990s. AT&T saw the telemarketing industry as a profitable opportunity. Could AT&T offer a telemarketing package that would give it a competitive advantage over other telecommunication companies fighting for the contracts to support these new and expanding telemarketing operations?

The Telemarketing Industry

Telemarketing utilized telecommunications technology and management information systems in order to implement a marketing plan.

Telemarketing had been around for about 60 years, but in the late 1980s it moved into the growth stage of its life cycle. In 1980, there were 1,600 companies nationwide with some type of formal telemarketing effort, but by 1986 that number had grown to over 140,000 companies throughout the United States. These companies employed some two million people, and were responsible for the sale of some \$118 billion of goods and services. By the year 2000, it was estimated that the telemarketing industry would have eight million employees and generate over 500 billion dollars in sales as more and more businesses discovered that telemarketing was a cost-effective, innovative marketing tool.

The telemarketing industry was spending more than \$20 billion annually on telecommunications-related products and services, making it a substantial source of revenue now and into the future.

Telemarketing could be divided into four major categories:

- Order processing,
- Customer service,
- Sales support and,
- Account management.

Order processing was the most widely used form of telemarketing and involved having customers call in to place orders. Typical examples of order processing were catalog sales by way of a toll-free 800-number such as that used by Sears catalogue sales or the L.L.Bean Company.

Customer service centers were enjoying the fastest growth in the telemarketing industry and were used to provide on-going support to customers who had purchased a product. Examples included software support “hotlines”, and requests for warranty repairs.

A telemarketing *sales-support* center worked alongside an outside sales force. Sales support helped improve the effectiveness and efficiency of the sales force by tracking shipments, resolving billing problems, and taking orders when the salesperson was not available.

Account management involved an inside sales force that managed a specific group of clients who did not have an outside sales force. Account management centers called customers with information on new products and took orders. These centers also provided customer service to their clients.

Telemarketing Systems

A telemarketing “system” was made up of one or more call centers acting essentially as a “hub” where management information and communications systems met. Trained staff interacted with clients of a specific region through telephone switching equipment by processing requests and offering information from their computer databases. Critical decisions in developing such a telemarketing system included deciding the number of centers to use, where the centers should be located, and how to manage the calling traffic to each of the different centers.

Calling centers varied according to the size of the facility, including the volume of the space and the number of people employed. The size of the center was based on forecast calling volume, which, in turn, depended on the size of the specific region(s) to be served from that center. Companies that offered 24-hour support also chose multiple site locations based on time zones, allowing them to continually route calls to day-staffed locations and avoid the high costs of staffing “around the clock”. While call centers had to be sized to be cost effective, many costs of operation were fixed, providing a cost advantage to having relatively few centers.

The Site Selection Problem

Communications costs were once the major driving force when deciding where to establish a telemarketing center. When 800-service was introduced in 1967, AT&T conducted studies on where to locate these centers. For the most part, the cost of the 800-service determined the best location since labor and space costs were relatively inexpensive compared to the costs of long distance calls. This cost structure favored mid-west sites (such as Omaha, Nebraska), where many of the major hotel, airline, and car rental companies subsequently located their telemarketing centers.

Today, the picture is more complex. Communications costs have fallen steadily while labor costs have risen as the labor market stabilized. In the 1970s and 1980s, the labor market grew at nearly three percent per year while, for the 1990's, most forecasters were predicting that the labor market would grow by less than one percent annually. At the same time, the telemarketing industry was booming. In 1987, the industry employed two million people and was expected to employ over eight million by the year 2000. Therefore, a fundamental shift had occurred; the costs and availability of labor had replaced communications costs as the most critical factor facing telemarketers: a new approach was needed for planning telemarketing centers.

Recognition that there were many cost factors in addition to the cost of the telecommunications led to an understanding of the complexity of locating sites for calling centers. Real estate purchase and leasing prices varied throughout the country, as did utility rates, local taxes, and the costs of labor and other essential services. As a consequence, it was not always cost effective to locate a calling center in the region it actually served: "electronic distance" was the important factor, not physical distance and the costs were not necessarily proportionate.

The design of a telemarketing system began with forecasts of the volumes and average length of calls for each area of the service region. These traffic volumes, together with the required agent utilization rates, allowed calculation of the efficient operating sizes for the call centers along with the number required throughout the service region. After candidate sites were identified, the cost of calls to or from that site could be estimated based on forecast traffic volumes and known or forecast call charges. Often these costs included state taxes on long distance calls which, in some areas, resulted in intrastate communications rates being higher than interstate rates. Those costs that varied according to the different center locations, and the issue of "fractional traffic" also had to be considered. Fractional traffic involved allocating calls to alternate centers in times of high volume or when necessary to provide 24-hour customer support.

The general perception was that real estate costs and/or communications costs had driven existing location decisions, but further research indicated that political considerations within the company were often the major driving force. These political decisions often seemed to be emotional choices, such as locating a call center in the same city as the corporate regional headquarters, or in a city preferred by an influential senior manager.

Designing a Competitive “Telemarketing System” Product at AT&T

In order to achieve a competitive advantage in the provision of telemarketing systems and services, AT&T had to make use of its in-house knowledge and experience to design a product that was superior to that offered by its competitors. How could AT&T address the questions telemarketing companies were asking when choosing sites for new call centers? Given strong personal preferences among management for particular sites, how could AT&T help with the site selection decision? Could AT&T develop and explain the rationale for improved telemarketing sites? Finally, if AT&T were able to develop an approach to call center site selection, how could it ensure that any advantage gained would be sustainable over a period of time?

Tom Spencer III, and Tony Brigandi of AT&T's Business Operations Analysis group, and Dennis Dargon and Michael Sheehan from AT&T's National Technical Center were brought in and asked if they could help to address these issues.