INDUSTRY PROFILE

Telephone Call Centers

7.6.2020

NAICS CODES: 56142

SIC CODES: 7389

Industry Overview

Companies in this industry operate telephone call centers that provide telemarketing, customer care, and other outsourced business services on a contract basis. Major companies include Alorica, Conduent, Concentrix, Sitel, and TeleTech (all based in the US), as well as Atento (Brazil), Teleperformance (France), and Transcom Worldwide (Luxembourg).

Global call center revenue was about $310 billion in 2016, according to JLL Research. The US, India, and the Philippines are leading sites for call center operations. Growth markets for the industry include countries such as Mexico, Cambodia, Vietnam, and Malaysia.

The US telephone call center industry includes about 5,300 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about $22 billion.

Competitive Landscape

Demand is largely driven by **consumer spending** and business activity. The profitability of individual companies depends on **efficiency of operations**. Big companies have the scale to provide services to large corporate customers. Small companies can compete successfully for small and midsized customers, because there are few economies of scale. The US industry is **concentrated**: the top 50 companies account for about 55% of revenue.

Companies in the industry may lose business to potential customers that choose to conduct call center operations in house; they may also compete with business process outsourcing (BPO) and IT services companies. The industry has been sharply affected in recent years by regulatory controls on telemarketing practices and strong competition from offshore operators, though geopolitical uncertainty presents an opportunity for reshoring to the US.

Products, Operations & Technology

Major services are telemarketing sales, customer care, technical support, and call answering. Smaller companies generally specialize in one of these services. Call center operations are typically a function of **business process outsourcing** (BPO) services, which include the contracting of back office tasks (such as billing or purchasing) or front office, customer-related tasks (such as marketing or tech support).

Telemarketing companies operate **call centers**, also called contact centers, customer care centers, or customer management centers (CMCs), where employees (sometimes called "**agents**" or "seats") sit at computer workstations and either answer incoming telephone calls or make outgoing calls. Telemarketing sales - also called "customer acquisition" - consists mainly of making phone calls to sell products or services to new customers.

Customer care and technical support consist primarily of taking **inbound** phone calls from existing customers or from new customers placing orders. Technical support helps customers figure out how to use a product, such as a computer or computer program. Customer care can involve passive activities such as taking orders and answering billing or technical support questions, or active initiatives such as follow-up calls to customers and cross- or up-selling. **Answering services** include automated voicemail systems and live operators, and are often used to provide information to callers outside of regular business hours, especially for critical businesses like doctor offices.

Some companies also provide **credit collections** services and employee or **member care** services, such as explaining health care benefits to customer employees or members of managed health care plans. In addition, call center operators may offer other communications services such as teleconferencing, remote meetings, and video conferencing. Web chat and email communications are increasingly common components of a call center operator's suite of services.

For sales calls, computer systems, called "**predictive dialers**," initiate calls using a **call list**, screen busy signals and answering machines, and route answered calls to an employee along with a **marketing script**. Call lists may be acquired from client companies or brokers, or through the firm's own research. For customer care and technical support, computers route incoming calls to an agent who has the information the customer needs, and may provide detailed information about both the product and the caller. Large call centers may hold more than 600 workstations. Call centers are often open 24 hours a day, seven days a week.

Because computer systems and labor are expensive, call center operators closely monitor **capacity utilization** and try to maximize the efficiency of their operations. With phone traffic uneven during the day and week, companies may use a large number of **part-time employees**. Incoming customer service traffic is heaviest during business hours, while outgoing marketing activity is heaviest in the early evening hours. To use labor and computers most efficiently, some companies operate "blended" call centers that handle both customer care and sales.

Technology

Computer and telecommunication systems are important aspects of call center operations. Computer systems typically monitor efficiency such as call volume, the average time to answer a call, the average call length, abandoned calls, and call success rate **("contact conversion rate")**. The integration of call center activity with customer computer systems ("computer-telephony integration," or CTI) allows call centers to operate as extensions of customers' own phone and information systems.

Some companies have built sophisticated telecommunication and management systems to operate their call centers and serve specific customers. Technology has expanded to include correct?routing?of calls and information to appropriate workers, scalable systems to handle a large volume of calls, automated voice systems, and scheduling and staffing systems to manage workers. Companies must often integrate their systems with those of their customers, according to Call Centre Helper.

Telemarketing companies are also becoming more sophisticated in their communications in order to send the right message to the right customer at the right time via their preferred channel. Many call centers have expanded their nonvoice offerings, incorporating technology such as Interactive Voice Response systems (IVRs) that allow consumers to answer "yes" or "no" to a range of questions rather than speak to a live consultant. Delivering more targeted digital marketing messages over email, social networks, mobile, websites, SMS text, screen sharing, and live chat channels results in higher conversion rates at a lower overall cost for clients.

Sales & Marketing

Typical customers are businesses that don't want to handle customer care or telemarketing functions internally. Sales are handled by a direct sales force that emphasizes the lower cost of outsourcing. Major clients are in **customer-intensive** industries like telecommunication; financial services; publishing (magazine subscriptions); fundraising; cable TV advertising; and computer technology.

Contracts usually last for several years, and may contain a variety of revenue schedules that are typically linked to various **performance metrics**. Revenues may be based on the time employees are in touch with customers, measured by the hour or minute, success rates for marketing calls, or other performance measures. Base fees, coupled with performance incentives, are common. Sometimes companies work as **subcontractors** to larger telemarketing companies, or have contracts to handle only the overflow from customers or other operators.

Finance & Regulation

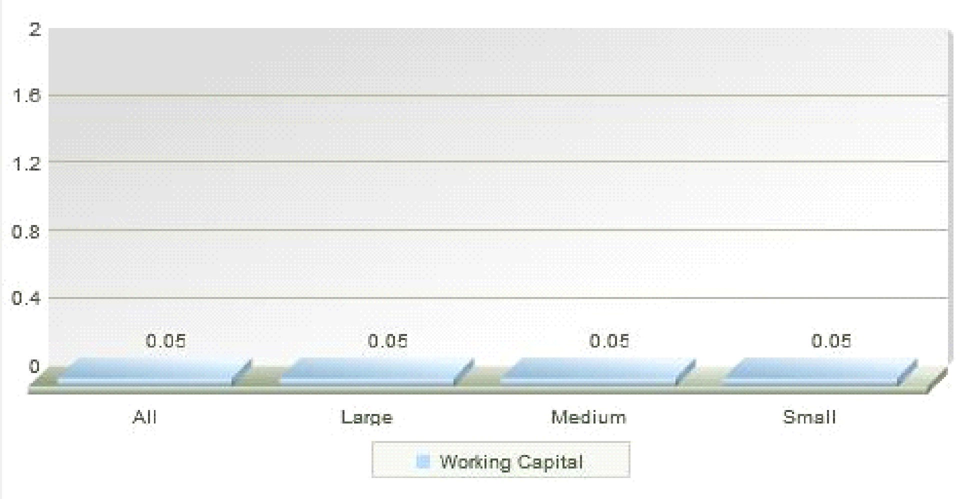
Revenue may be seasonal if, for example, customers sell a product that is heavily bought at Christmas, or if a major customer is a managed health care company with an annual enrollment period. Call center companies invest heavily in technology. Property consists largely of computer systems and software, which may need frequent replacement.

Telemarketing firms may have a high **concentration of receivables** in a few large customers. Overall average receivables for the industry in the US are about 30 days' sales.

Companies have relatively high fixed costs, due to the expense of operating call centers. Labor is a major operating cost. The industry is **labor-intensive**: average annual revenue per worker in the US is about $41,000.

Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Regulation

The industry is subject to both state and federal regulation in the US. Major federal laws are the Federal Telephone Consumer Protections Act of 1991 (TCPA), administered by the FCC, and the Federal Telemarketing Consumer Fraud and Abuse Protection Act of 1994 (TCFAPA), administered by the FTC. The FTC regulations are called the **Telemarketing Sales Rule (TSR**).

Amendments to the TSR in 2003 established a **national do-not-call registry**, funded by the industry, and limited other operating procedures. A majority of states have also established statewide do-not-call registries telemarketers are required to use. Various federal and state laws also govern the collection and use of consumer information.

In addition, company employees who sell insurance, investments, or mortgage loans on behalf of customers must comply with various state and federal **licensing** requirements.

International Insights

Global call center revenue was $310 billion per year in 2016, according to JLL Research. The US, India, and the Philippines are leading sites for call center operations. Growth markets for the industry include countries such as Mexico, Cambodia, Vietnam, and Malaysia. Major companies based outside the US include Atento (Brazil), Teleperformance (France), and Transcom Worldwide (Luxembourg).

Many call center operators are located in developing countries due to the availability of cheap labor. Accents are a contributing factor to India losing some of its call center industry to the Philippines in recent years. Accents in the Philippines are typically considered more neutral, according to a representative from India's Associated Chambers of Commerce.

Call centers in maturing economies, where labor costs are higher, can use automation and predictive software to increase productivity and offer better quality service. These call centers may also be able to offer data services by investing in artificial intelligence and analytics technologies.

Regional Highlights

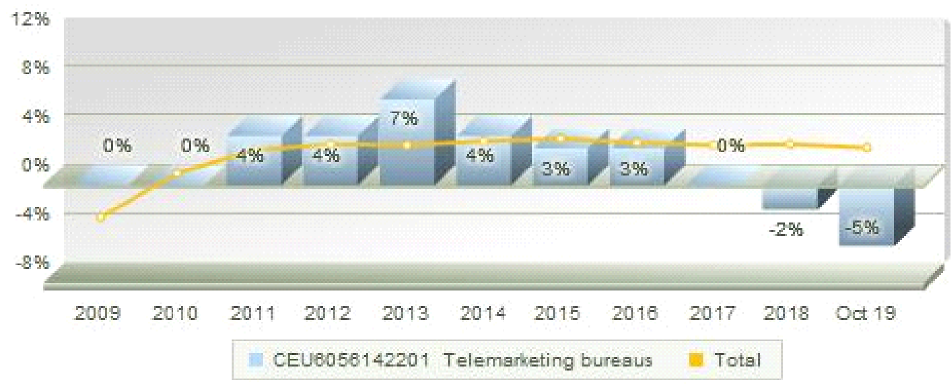
In the US, states with the most call centers include Florida, California, Texas, New York, and Ohio. Metro areas where call-center employment is growing the fastest include Seattle-Tacoma-Bellevue, Washington; Detroit-Warren-Dearborn, Michigan; Miami-Fort Lauderdale-West Palm Beach, Florida; Tampa-St. Petersburg-Clearwater, Florida; and Rochester, New York, according to JLL Research.

Human Resources

Average hourly pay at US call centers is moderately lower than the average for all US workers. Personnel turnover for the professional and business services sector, including telephone call centers, is about 35% higher than the national average. As a result, call center operators must devote significant resources to hiring and training of new workers.

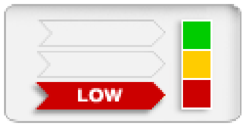
Employee training is especially important for companies that provide technical support for complicated products like computers or software. Because telephone call center work is typically carried out in an office setting, the industry injury rate is significantly lower than the US average.

Industry Employment Growth
Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase
Bureau of Labor Statistics

Industry Growth Rating



Demand: Driven by business activity and consumer spending
Need efficient use of low-cost labor
Risk: Increased regulation and economic affects on spending

Industry Indicators

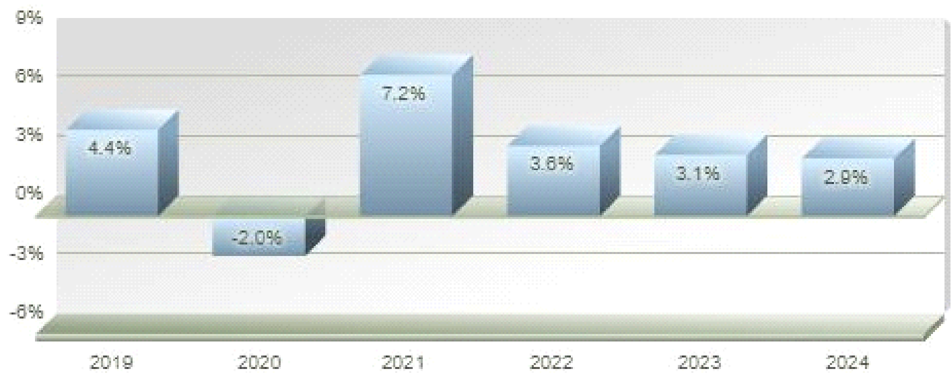
Total US consumer spending, a driver of telemarketing sales, rose 1.0 percent, primarily from services expenditures, in July 2020 compared to the same month in 2019.

US personal income, a measure of consumer ability to purchase goods and services through telemarketing, rose 8.2 percent in July 2020 compared to the same month in 2019.

Total US revenue for other administrative and support services, which includes telemarketing services, fell 2.1 percent in the second quarter of 2020 compared to the same period in 2019.

Industry Forecast

Revenue (in current dollars) for US telephone call centers is forecast to grow at an annual compounded rate of 4% between 2020 and 2024. Data Published: July 2020



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. Forecast FAQs

Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually

Technology Innovation Advances in science and technology, including information technology

Government Regulations Changes in federal, state, or local government regulations or business-related policies

Critical Issues

Highly Competitive Industry - Several factors contribute to the competitive nature of the call center industry, including competition for low-cost labor and competition from in-house customer service operations. US telemarketing companies face competition from call centers in low-wage countries like India and the Philippines, which have educated, English-speaking workforces. Quality concerns related to outsourcing have led some companies to retake control of customer service operations.

Labor-Intensive Business - The ability to recruit and train employees with the right skills at the right price point is critical to successful call center operations. Although telemarketing companies need a low-cost workforce, they also need well-educated workers who can easily learn about the products they provide customer support for. This need is especially critical for technical support for complicated products like computers, smartphones, and software. The relatively low pay and irregular hours produce a high level of personnel turnover, which complicates training.

Business Challenges

Heavy Industry Regulation - The operations of telemarketing companies are strongly affected by state and federal regulations, including restrictions on contact hours and sales practices, and do-not-call registries. Existing and possible future restrictions concern the collection, use, and protection of information about consumers, and how personal health information is handled. Companies that make credit collections or sell insurance, investments, or loans are subject to additional regulations.

Dependence on a Few Large Customers - Many telemarketing companies earn a large portion of revenue from a handful of customers who, in some cases, can cancel their contract with a few months' notice. Even the largest companies in the industry may get more than 20% of their business from a single customer. Because cost is a major factor in securing contracts, telemarketing companies can't count on long-term relationships with customers.

Revenue Tied to Consumer Spending - Because much telemarketing involves selling consumer products or helping consumers who've bought a product, the volume of activity can drop sharply during an economic slowdown. The revenue of many large telemarketing companies declined during the late-2000s recession, and industry employment fell. To counteract vulnerability to economic cycles, some companies have expanded into other services.

Business Trends

Evolution of Telemarketing Technology - Some companies have built sophisticated telecommunication and management systems to operate their call centers and serve specific customers. Technology has expanded to include correct routing of calls and information to appropriate workers, scalable systems to handle a large volume of calls, automated voice systems, and scheduling and staffing systems to manage workers. Companies must often integrate their systems with their customers'.

Industry Consolidation - Large call center operators aiming to grow their market share and expand into new geographies and service lines often do so through mergers and acquisitions. The industry has seen several major transactions in recent years. Large companies routinely have merger, acquisitions, and divestiture opportunities.

Multi-Channel Communications - Telemarketing companies are becoming more sophisticated in their communications in order to send the right message to the right customer at the right time via their preferred channel. Delivering smarter, more targeted digital marketing messages over email, social networks, mobile, websites, SMS text, voice, and chat results in higher conversion rates at a lower overall cost for clients.

Growing Role of Digital Assistants - New voice-related artificial intelligence technologies will likely play a growing role in the call center industry. Amazon's Alexa has been popular with consumers, and the company is also offering a commercial version to businesses seeking to improve and simplify communications. Google's new Duplex voice technology, initially seen as a consumer product, could be developed for enterprise use.

Industry Opportunities

New Telemarketing Services - As outbound sales calls and inbound customer care have become commodity products, call center operators have evolved other services that use the same call center infrastructure. Some large customers use telemarketers to support their own employees, typically for employee benefits such as health care, insurance, and 401(k) plans. Telemarketers may handle all billing transactions and questions for customers, such as utilities, and may also manage receivables, including credit collections, either on behalf of a customer or for a portfolio of purchased receivables. Because of their large investment in communication technology, some call center operators provide teleconferencing.

Services for Global Companies - The expansion of international trade provides telephone call centers the opportunity to support companies with international operations. Telemarketers may operate local customer care centers in countries where a client such as a car company or a phone vendor has significant sales. Large customers prefer to outsource this activity to a single telemarketer rather than work with local companies, to attain a common level of service.

Home Agent Service - Rapid evolution of technology allows telemarketers to hire workers who work from home, rather than from a call center. This capability allows companies to hire a more skilled workforce, especially for technical support, and reduces the need for large capital investment in call centers. Agents who work from home use internet-based systems to schedule work, receive assignments, and access relevant customer and product information.

Partnerships with Technology Vendors - Call center operators can team with vendors of technology products like computer systems to provide one-stop shopping for clients. This approach allows vendors, especially smaller ones, to avoid building their own customer support staff. In such partnerships, the corporate customer may pay separately for the product and the support service, or the telemarketer may subcontract to the vendor, who sells a complete package.

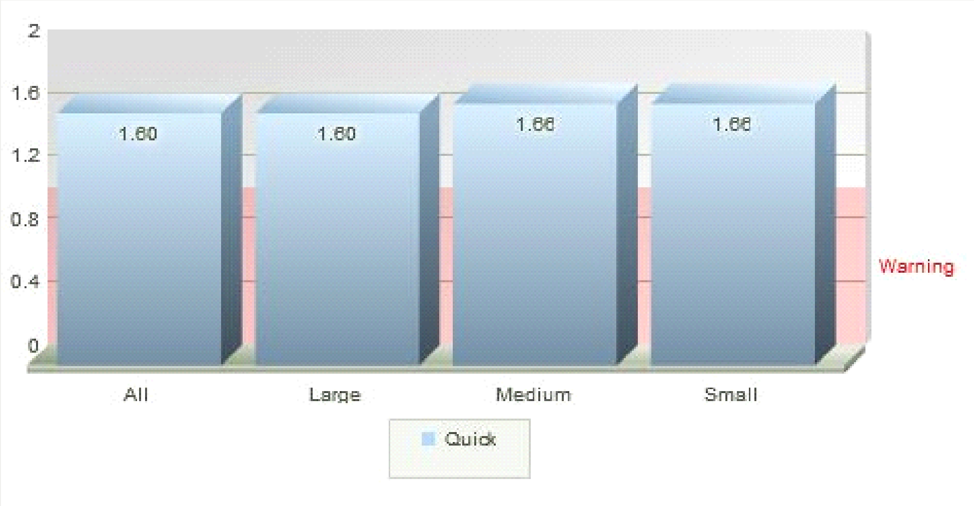
Management Contracts - Because of their expertise, some teleservice companies help customers manage their own call center operations. Telemarketers may dedicate a physical portion of a call center to the operations of a specific customer, or may manage an entire customer-owned call center for a fee. Because most telemarketing work is still done in-house, the potential market for management contracts is large.

Financial Information

COMPANY BENCHMARK TRENDS

Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

COMPANY BENCHMARK INFORMATION

NAICS: 56142

Data Period: 2015	Last Update September 2017
Table Data Format	Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over $50M	$5M - $50M	Under $5M
Company Count	2579	7	9	2563

Income Statement				
Net Sales	100%	100%	100%	100%
Gross Margin	90.3%	91.2%	78.1%	87.7%
Officer Compensation	1.7%	1.5%	1.6%	2.9%
Advertising & Sales	0.5%	0.5%	0.4%	0.5%
Other Operating Expenses	82.0%	83.2%	70.1%	77.7%
Operating Expenses	84.2%	85.2%	72.1%	81.1%
Operating Income	6.1%	6.0%	6.0%	6.7%
Net Income	2.7%	2.7%	2.7%	2.9%

Balance Sheet				
Cash	14.1%	12.9%	16.6%	19.2%
Accounts Receivable	37.1%	38.8%	31.1%	30.6%
Inventory	0.1%	0.1%	0.1%	0.0%
Total Current Assets	64.2%	63.8%	62.9%	66.3%
Property, Plant & Equipment	5.7%	5.3%	7.7%	7.0%
Other Non-Current Assets	30.1%	30.9%	29.4%	26.7%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	9.8%	10.2%	9.9%	7.7%
Total Current Liabilities	35.7%	36.3%	33.4%	33.3%
Total Long Term Liabilities	24.0%	22.9%	25.7%	29.0%
Net Worth	40.3%	40.8%	40.9%	37.7%

Financial Ratios (Click on any ratio for comprehensive definitions)				
Quick Ratio	1.51	1.48	1.56	1.64
Current Ratio	1.80	1.76	1.89	1.99
Current Liabilities to Net Worth	88.6%	89.0%	81.5%	88.4%
Current Liabilities to Inventory	x357.60	x330.24	x416.98	x830.27
Total Debt to Net Worth	x1.48	x1.45	x1.44	x1.65
Fixed Assets to Net Worth	x0.14	x0.13	x0.19	x0.19
Days Accounts Receivable	30	30	33	29
Inventory Turnover	x442.78	x379.27	x937.55	x1,183.10
Total Assets to Sales	22.5%	21.5%	30.1%	26.4%
Working Capital to Sales	6.4%	5.9%	8.9%	8.7%
Accounts Payable to Sales	2.2%	2.1%	2.9%	2.0%
Pre-Tax Return on Sales	4.4%	4.4%	4.4%	4.7%
Pre-Tax Return on Assets	19.7%	20.3%	14.7%	17.7%
Pre-Tax Return on Net Worth	48.9%	49.8%	35.9%	46.9%
Interest Coverage	x4.40	x4.12	x3.70	x7.17
EBITDA to Sales	6.8%	6.8%	6.5%	7.2%
Capital Expenditures to Sales	0.9%	0.9%	0.8%	0.8%

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

VALUATION MULTIPLES

Telephone Call Centers

Acquisition multiples below are calculated medians using at least 3 US private industry transactions completed between 1/2008 and 12/2019 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than $1B. Data updated annually. Last updated: December 2019.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.4	0.5	3.6	2.7

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.
Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.
Gross Profit = Net Sales - Cost of Goods Sold
EBIT = Operating Profit
EBITDA = Operating Profit + Noncash Charges

BVR
What It's Worth

SOURCE: DealStats (formerly Pratt's Stats), 2019 (Portland, OR: Business Valuation Resources, LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Industry Websites

Call Center Times
Call center news, job information.

Canadian Marketing Association
Telemarketing regulatory affairs.

Contact Center World
International call center association, news, and issues.

Data Marketing & Analytics
Industry positions on various regulatory issues.

Federal Trade Commission
Details on complying with the Telemarketing Sales Rule.

International Customer Management Institute
Call center performance statistics, glossary, associations.

Professional Association for Customer Engagement
Contact center trade organization, industry issues.

Glossary of Acronyms

BPO - business process outsourcing

CMC - customer management centers

CTI - computer-telephony integration

TCFAPA - Telemarketing Consumer Fraud and Abuse Protection Act

TCPA - Telephone Consumer Protections Act

TSR - Telemarketing Sales Rule