The case for Transaction Based Pricing

A Coracall Whitepaper

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The Case for Transaction-Based Pricing

The transaction-based pricing model is the result (and iteratively, the cause) of a series of improvements such as process simplification, application of technology, standardization and finally a combination of all these leading to what we call platform BPO.

The math of transaction-based pricing is not merely about dividing a Full-Time-Equivalent (FTE) cost by the production per year. Instead, it is a whole different way of looking at managing delivery. It can meet present-day BPO objectives and be superior over the traditional FTE based

Key factors to consider while implementing transaction pricing

Enterprises considering implementing transaction pricing should do the following:

Transaction-based pricing offers significant advantages over the variations of Time and Material (T&M- based pricing where service providers charge for manpower employed per unit of time.) Transaction-based pricing breeds’ efficiency since the service provider is paid for quantity of work. Typically, the service provider provides a base price for a specified volume band with a negotiated increase or decrease in price as usage fluctuates around the specified band.

Key considerations include:

- Define the transaction. What does it include?
- What is excluded?
- Identify process interdependencies
- Estimate the process inflow

Pros of Transaction-Based Pricing

- Closely tied to customer’s business cycle
- Enhances visibility into consumption pattern
- Encourages productivity & efficiency

• Make sure the client’s volume forecast is accurate
• Separate the processes activities that are not end-to-end in nature, i.e., where service provider performs some of the processes while the client does the remainder
• Assess the foreign exchange impact
• Identify and agree on critical SLAs such as turnaround time, etc.
Cons of Transaction Based pricing

- May not be directly tied to customer’s business outcome
- Transaction-based pricing is challenging for low-volume processes or those that have different language requirements, which require higher temp staffing

The process

Transaction-based pricing is challenging for low volume processes or those that have different language requirements, which require higher temp staffing. Separate these from the processes that are better suited. It is also not a convenient model for processes with high fluctuation in volumes.

- Review historical data based on the definition of the transaction
- Lock volume for four months
- Identify and define the requests that are not actionable but consume efforts. Then determine whether you need that action or not.
- Determine the degree of fluctuation/ seasonality of volumes (Hourly? Daily? Weekly?)

Why Transaction Pricing?

There are many good business reasons. They include:

- A truly variable price structure, which helps customers keep the cost of the outsourced process based on business volumes
- Predictable business planning because costs are directly linked to transactions
- Greater regional cost control as it becomes possible to assign every cent of cost to a geographic region (market)
- Linking the interests of the service provider and client into the same stream as they share the benefits of the revenue generated. This leads to a lower costs of quality and maximizes incentive efficiency

Is Transaction Based Pricing Suitable for Any Business Process?

Customers favor transaction based pricing for business processes that they can clearly define, measure in discrete units, have fairly accurate baselines and experience fluctuations in consumption. In addition, processes that have a well-defined and measurable service level requirement that remains stable even if the number of transactions or users fluctuates are good candidates.

From a service provider’s perspective, the ability to deliver profitably in a transaction-based pricing scenario is tied to achieving volume and scale. Therefore, this type of pricing is usually favored for business processes that are standardized, transaction-intensive and demand-driven.
Both the service provider and the customer must understand what constitutes a transaction and what is excluded from it. Transactions should be easily measured for operations processing and performance and auditable by both the service provider and customer for accurate and timely counting of transactions that serve as the basis for billing.

Challenges in Adopting Transaction-Based Pricing

Predicting Volumes

Predicting a reasonable level of accuracy, providing minimum volume commitment for economies-of-scale and planning for volume variations is a complicated exercise that only a few customers are able to perform in a systematic and consistent manner.

Lack of Availability of Benchmarking Data

Lack of availability of reliable external benchmarks, in addition to unreliable internal benchmarks, hampers a customer’s ability to ascertain the commercial competitiveness of service provider quotes.

Loss of Control

Since day-to-day resource decisions and productivity information are not apparent to the customer, there is a perception that transaction-based pricing leads to loss of control.

Organization Change

Transaction-based pricing leads to changes in quite a few areas like budgeting (tracking inconsistent monthly / quarterly service cost); corporate finance (ensuring that invoices reflect accurate charges and credits); functional departments (affecting business process change); all departments (inculcating demand forecasting practices).

As the needs of business and how business uses BPO evolves, it only makes sense that BPO pricing models should evolve, as well. For standardized, demand-driven processing engagements, transaction pricing is emerging as a way to enable companies to manage outsourcing costs based on business volumes. Instead of becoming the new normal” transaction pricing is only the beginning of innovative pricing models that will be created to give outsourcing clients alternative, smarter ways to pay for the services they use.
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