Portal Systems

Mark A. Serva
George H. Watson

Institute for Transforming
Undergraduate Education

© 2007, Mark A. Serva and George Watson.
Please do not copy or use without permission of the first author.

STAGE 1

"Customer service is not an expense: it is a responsibility. It is a promise that we make each time a customer makes a purchase from Portal Systems."
--Emilio Chavez, founder and CEO of Portal Systems

Dan Stevens, The Vice President of Customer Relations for Portal Systems, looked at the framed picture on his wall and read the statement carefully. Emilio had handed it to him personally when he graduated from his new employee orientation class, almost fifteen years ago.

Emilio Chavez emigrated from Mexico to the United States in 1985. He had founded the company as a way of working himself through college—by selling computers out of his college dormitory room in Phoenix, Arizona (see map on the next page). Emilio started by placing advertisements in computer magazines, and was surprised at the demand. He built the computers himself, and took great care to produce a quality product for his customers.

Now, over twenty years later, Portal was one of the top personal computer manufacturers in the United States. Portal still had no physical stores; it generated most of its sales through its website. Although Portal typically wasn't the cheapest option, customers were attracted by Portal's reputation for high quality products and excellent customer service.

Dan enjoyed working at Portal. Emilio had worked to create a family atmosphere in the company. Portal Systems' manufacturing facilities and customer call centers were still located in the greater Phoenix area. The company felt its geographic cohesiveness was an advantage. Company sports leagues, picnics, and even pep rallies resulted in the company being one of the best places to work in the U.S.

More recently, however, sales were down across the personal computer industry, and increased overseas competition had tightened profit margins. Portal Systems was losing ground against its competitors: the company had lost 3% market share over the past year. Costs were also a concern: real estate prices, taxes, and wages had ballooned in Phoenix in recent years.

Perhaps even more troubling, the company's reputation for excellent customer service had eroded in recent months. Average hold time on the company's customer service lines had grown to thirty minutes, and fifteen percent of customers waited over forty-five minutes before a technician answered. Because of high wage and health insurance expenses, Portal's cost per employee was among the highest in the industry and was increasing fifteen percent annually. Even though the company was financially sound, Dan knew that the company needed to cut costs to remain competitive.

Amy Smith, the Executive Vice-President for Products and Services, had asked Dan to assemble a list of recommendations to improve the recent decline in Portal's reputation.

FOCUS QUESTIONS

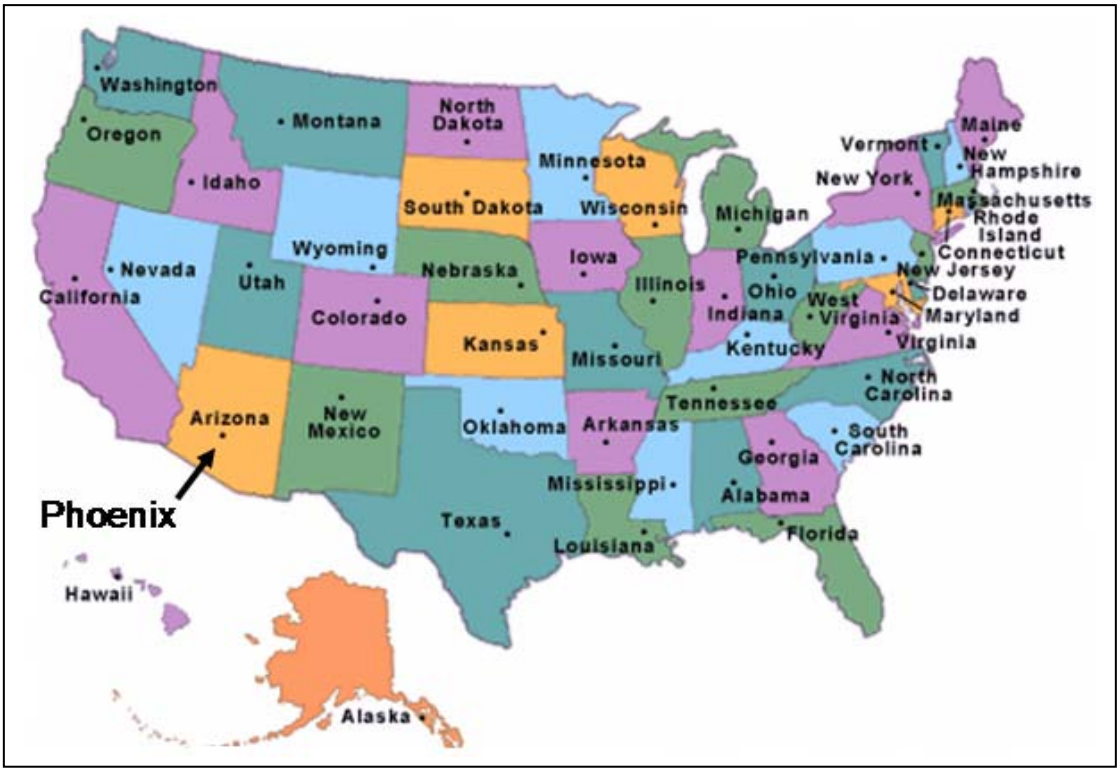
1. (**Work Individually**). Portal is facing increased costs, a declining reputation, heightened competition, and lowered revenue. Consider Dan's options for resolving Portal Systems' problems. Write down your ideas on a sheet of paper.

2. (**Work As a Team**). Share your ideas with your teammates. Discuss the cultural and managerial implications as well as potential risks for each suggestion.

3. (**Work As a Team**). Construct a list of learning issues: What do you know? What do you need to know? Where and how will you find the information you need?

4. (**Work As a Team**). Use the Internet to research the most promising options.

5. (**Work As a Team**). Be prepared to report back on your team's list of four steps Portal should take to improve its situation. Also be prepare to discuss the advantages and disadvantages of these steps.



PORTAL SYSTEMS: STAGE 2

Dan's investigation had uncovered a number of potential causes for the company's customer service problems:

- The productivity and performance of call center employees was a concern. Even though the average number of calls handled per hour had remained consistent over the past year, the increase in overall call volume had increased the average hold time well beyond the company standard of fifteen minutes.
- Portal commonly hired older workers who had retired to the warm weather in Phoenix. Increased competition for workers—as well as spiraling healthcare costs—had raised costs considerably.
- The company's twelve call centers were at maximum capacity. Although adding more centers was an option, the high cost of construction and operations made further expansion in the Phoenix area undesirable.
- The pressure to add more call center employees had forced the company to lower its hiring standards. As a result, performance metrics—for example, whether or not the representative provided the correct information, number of transfers to other departments—were dropping. Managers were also now putting more weight on lowered average call time, which meant customer service representatives were under increased pressure to handle calls quickly.

Portal Systems' main advantage had been its website, which allowed customers to configure and order their systems. Recently, however, the Portal’s two main competitors had made improvements in their online ordering capabilities to the point where they were almost as advanced as Portal.

Dan also realized that these competitors had a significant cost advantage over Portal. Both had closed their call centers in the United States and had hired call center providers in India. Their customer service cost structure was much lower than Portal's, making it difficult for Portal to match their profit margins.

To gain insight into offshoring, Dan met with a representative from Extend, a call center provider headquartered in Bangalore, India. Extend had been founded only two years ago, but the company had rapidly grown to three call centers that housed thousands of employees. Dan's inquiries convinced him that Extend had an excellent reputation and was well-managed. Extend was confident that it could dramatically improve Portal's service levels. There would be a considerable initial expense to cover the hiring, conversion, and shutdown of Portal's domestic centers. After that, however, the annual cost would decline by at least thirty percent.

Given its potential advantages, Dan knew he must consider offshoring in his recommendations to the Executive Vice President.

FOCUS QUESTIONS

Your team will be assigned to one of the following stakeholder groups:

- Portal Customer Service Representative
- Portal Executive Management
- Phoenix community leader
- Representative from Extend
- Representative from the Indian government

Discuss the following focus questions with the other members of the same stakeholder group. In your new role, *you are acting as an advocate for the assigned stakeholder group*. Be sure to consider the following focus questions:

1. Why is Portal's decision to offshore its call centers important to your stakeholder group?
2. How does Portal's level of customer service affect your stakeholder group?
3. What information do you need to find in order to be an effective advocate for your stakeholder group? Where do you think you can find the information?

Use a flip chart to record your ideas. Summarize your concerns on a separate sheet for presentation to the rest of the class.

STAGE 3

Return to your original group. Your group will assist Dan by formulating the final recommendations for Amy Smith. Your recommendations should be in the form of a 5 minute PowerPoint Presentation and should answer the following focus questions:

- Should Portal Systems offshore its customer service function?
- If so, how much? How can it complete the transition as painlessly as possible? What are the future implications of offshoring its call centers?
- If not, what are Portal Systems alternatives to offshoring? What are the advantages and disadvantages?
- How can Portal Systems balance the concerns of its stakeholders?

TEACHING NOTES:

1. What are Dan's options for decreasing Portal Systems' high customer service costs?

   Monitoring software. The case does not mention whether or not managers monitor their customer service representatives. Customer service representatives' productivity may improve with the introduction of monitoring software. Managers can verify that employees are not wasting time while working (e.g., surfing the Internet or sending email).

   Telecommuting. Initiate telecommuting among its local employees. Technology and infrastructure is in place to make telecommuting a reality. Software and hardware now exists to switch calls and to balance loads across different locations.

   Alternative Communication Methods. Companies can now offer different options for contacting customer service, including community forums, chat, email, and web-based resources.

   Nearshoring. This option has more recently become a popular option, given the risks of outsourcings to overseas locations. Nearshoring involves outsourcing to a provider in a geographically close, low-cost location. Germany, for example, commonly offshores its work to Eastern Europe, but outsources less to India. This option is attractive, since it can be less risky than hiring a more distant provider. The costs—depending on the location—can be comparable to offshoring to a more remote location.

   Offshoring. Moving their customer service options to an overseas provider is an increasingly common option. This option will be explored to a greater extent in Stages 2-4.

2. What are the cultural and managerial implications for each of these options? What are the risks?

   Monitoring software. Financially, the cost of introducing monitoring software will be considerable, but shouldn't be a financial burden for a company as large as Portal. The initial costs may be offset by the resulting gains in productivity. In addition to reducing loafing (unauthorized email and Internet use), management can also determine if employees are using the company's systems as effectively as possible. If not, tracking their keystrokes may allow them to assign targeted training to improve their productivity.

   The cultural implications of instituting monitoring may be more troubling. Upper management must decide what information is tracked. Access to the information may be sensitive, so only certain managers should have access. The family atmosphere at Portal may suffer, since monitoring may intimidate employees. Older workers tend to be less accepting of monitoring, so Portal may see workers quit.

   Telecommuting. Financially, this may reduce overhead costs. Call centers are extremely expensive, and telecommuting could reduce the infrastructure costs while increasing the company's flexibility by allowing it to add service personnel as needed (e.g., around holidays, sales events). Telecommuting employees may be willing to work for less money because of the

© 2006 Institute for Transforming Undergraduate Education

added convenience. The company will have to supply each worker with hardware, software, and Internet access, which may be a significant initial expense. Culturally, managers will need to learn a different way of managing. Managing remote workers is very different than managing onsite workers. New teams may be needed to monitor and service telecommuters. Hardware problems will require a team of troubleshooters. Monitoring software may still be needed, since the productivity of remote workers is more difficult to track. Remote employees will have trouble adapting to Portal's culture, since they will not interact with other employees on a regular basis.

Alternative Communication Methods. Financially, the cost of these additional services should be reasonable. The technology has matured greatly in the past few years, and a competent web designer should be able to integrate the capabilities into Portal's web site. To provide an online library of documentation, online resources will have to be digitized and integrated into the website. There should be little effect on the company's culture. In fact, many of these options are more personal than phone contact. Chat, for example, tends to be more interactive and informal. Service reps often have a library of resources that can be provided easily through the chat interface. Community forums encourage customers to help each other. Portal could even offer discounts for customers who help customers.

Nearshoring. Mexico is the country most often associated with nearshoring for U.S. companies. Because of Emilio Chavez's Mexican heritage, this option may be especially attractive for Portal. Several factors may weigh against Mexico, however. Their workforce tends to be less educated than some other offshoring options (e.g., India, China, and Canada). The country's infrastructure, although improving, may also be a source of concern. At the same time, because of the common heritage and proximity, Mexico does offer some significant advantages.

Offshoring. Financially, the cost of starting up an offshore location will depend on the provider. Signing a contract with an established provider would be desirable, but even the largest provider will have considerable start-up costs to handle an operation as large as Portal. Ideally, the process would be gradual, allowing economies of scale to emerge. Portal needs to ensure that the offshore company can live up to its high expectations. Culturally, the decision to offshore its entire customer service operation could be devastating to the company. Laying off thousands of employees would hurt the company's culture and local economy. Given the company's strong family focus, the company may alternatively use its offshore providers to add capacity to its existing call center operation. The company can then ramp up overseas operations as attrition reduces its domestic workforce. Because the company tends to hire older workers, this option may allow the company to balance cost reduction and cultural considerations.

© 2006 Institute for Transforming Undergraduate Education