

MA/SG Outsourcing: Practice Drill #3 (suggested time: 25 minutes)

Perfect Practice Inc (PPI) is considering outsourcing its call center function so that its able to relocate to a smaller office. The company was approached by two potential call center service providers. The owner is concerned that outsourcing to the wrong service provider may damage the company's reputation of excellent customer service. The relevant information of the two providers and the company's latest income statement are presented below.

DigiCall is a Canadian call center service provider that offers call center agent support, client surveys and customer support services. DigiCall charges a flat daily fee of \$100 plus \$29 per hour for caller time for its services. DigiCall was established in 2020 and was featured in Wired magazine as one of 2020's most well-managed startups. The company is known for its efficiency in answering queries and prioritizing speed over customer satisfaction.

Amero is a call center service provider located in the United States. The company charges a daily flat fee of \$120CAD and hourly caller fee of \$20CAD. Bank of Canada estimates 5% fluctuation to USD/CAD currency in the next 5 years. Amero is one of the oldest call center providers in the US. It is known for its customer satisfaction and well-trained staff. Amero was recently approached by a telecom giant with a proposal to upgrade its outdated telephone equipment.

PPI is a large Canadian exam preparation company. Founded in 2002, the company has grown to be one of premier service providers in Canada. It has established a reputation of excellent customer service by answering client inquiries within 2 hours. This was accomplished by keeping the call center open 7 days a week, except on 11 statutory holidays. The company's mission is to offer outstanding customer support to students across Canada.

PPI's most recent income statement is presented below:

Perfect Practice Inc
Income Statement
For the year ended December 31, 2020
(in Canadian dollars)

	Notes
Revenue	\$2,300,000
Office and administration	\$700,000
Repairs and maintenance	50,000
Staff wages	1 700,000
Management salary	2 180,000
Advertising	60,000
Telephone costs	3 140,000
Rent and utilities	4 60,000
Office equipment depreciation	5 90,000
Office expenses	6 105,000
	<u>\$2,085,000</u>
Pre-tax income (loss)	<u>\$215,000</u>
Income tax payable (recovery)	<u>43,000</u>
Income (loss) after taxes	<u>\$172,000</u>

Notes:

- 1 Staff wages includes \$600,000 in payment of call center agent hourly wages. PPI employs 20 full-time call center agents who were on shift a total 33,000 hours in 2020.
- 2 The management salary includes call center supervisor salary of \$80,000
- 3 About 70% of all telephone costs in the year are directly related to the call center
- 4 If PPI relocates to a smaller office, it can avoid 20% of all rent and utility expenses
- 5 Of the depreciation expenses, 20% are directly related to the call center and can be sold for \$10,000
- 6 Office expenses are for the annual Christmas party, insurance, supplies and so on.

You, CPA, are an external consultant hired to advise PPI on its decisions. The owner asks you to perform an analysis and present your finding at the upcoming management meeting.