Rethinking Customer Service Outsourcing: The Value Operating Model for Value-Driven, Customer-Centric Partnerships

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Executive Summary

The customer service outsourcing industry is at an inflection point. For decades, outsourcing models have been structured around cost reduction, labor arbitrage, and rigid, input-based contracts. While these models delivered predictable cost savings, they are increasingly misaligned with the realities of a customer-centric, digitally enabled business environment. Customers today demand seamless, emotionally resonant, and frictionless experiences. Businesses, in turn, require service models that drive not just efficiency, but loyalty, customer retention, and long-term growth.

In my previous white papers on **Value Creation and Value Sourcing**, I introduced a foundational shift: moving from cost-focused customer service to a value-driven approach powered by **Customer Lifetime Value (CLV)** and **Relationship Quality (RQ)**. These papers outlined how organizations can redesign service strategies, segmentation, and sourcing decisions to maximize customer value and deepen loyalty.

This new white paper builds directly on that foundation.

It extends the CLV + RQ philosophy beyond service and sourcing into a holistic **Value Operating Model (VOM)**; a comprehensive approach that reshapes how enterprises design, manage, and commercialize their outsourcing partnerships. Whereas the prior paper established *why* value-centricity matters and *how* CLV and RQ can be operationalized, the VOM provides the **operating system** to embed these principles across an entire outsourcing ecosystem.

The VOM transforms partnerships by:

- **Linking operations directly to value creation**, not just service outcomes.
- **Shifting governance** from SLA oversight to predictive, data-driven value management.
- **Empowering partners** to innovate by clearly separating *what* the enterprise owns and *how* partners deliver.
- **Aligning commercial models** to reward CLV uplift, churn reduction, RQ improvements, and cost-to-serve efficiency.
- **Applying Smart Sourcing**, guided by CLV and RQ segmentation, to allocate effort where it matters most.

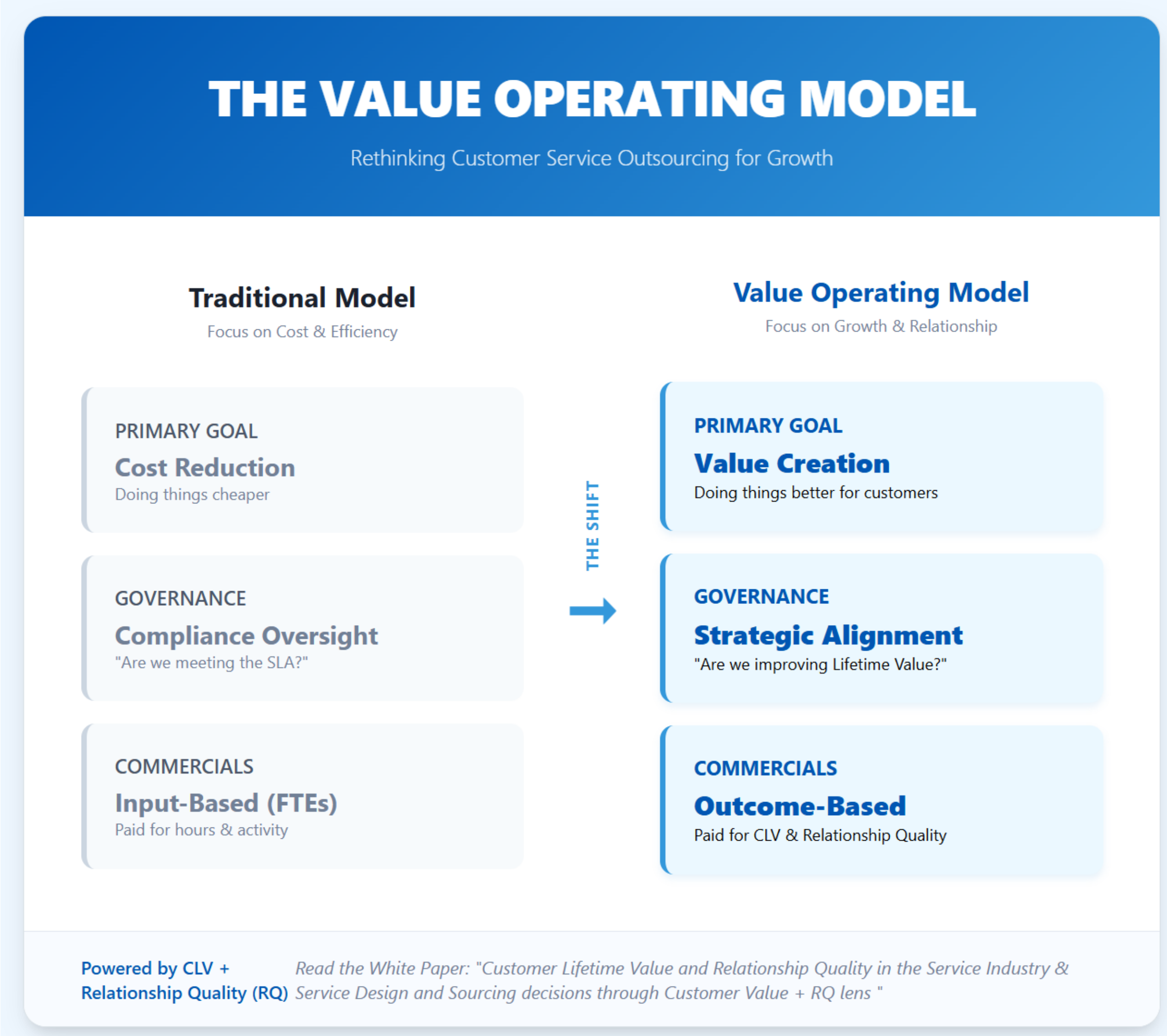
- **Leveraging modern technology**—AI, CDPs, predictive analytics, automation, real-time dashboards—to make value measurable and partner autonomy scalable.
- **Providing a structured roadmap** to implement the model with predictable risk management and organizational alignment.

Where traditional models prioritize efficiency and volume, the VOM reframes customer service operating models as a **strategic value engine**; one that grows relationships, protects the brand, and drives long-term revenue. It delivers a modern, collaborative partnership structure suited to today's digital demands and tomorrow's competitive landscape.

Together, this paper and my **Value Creation and Value Sourcing** white papers form a complete strategic framework:

From understanding customer value → to sourcing based on value → to operating a partner ecosystem that creates value.

Organizations that adopt this model will outperform those that remain anchored in transactional outsourcing, unlocking stronger loyalty, more resilient customer relationships, and sustainable business growth.



1. Introduction: The Need for a New Outsourcing Model

The BPO Landscape Is Evolving

The global Business Process Outsourcing (BPO) market is projected to grow from **$302.62 billion in 2024 to $525.23 billion by 2030** (Grand View Research, 2024). This growth is driven not only by the need for cost efficiency but also by an increasing demand for flexible, high-quality customer experience delivery.

At the same time, customer expectations have radically evolved. Digital-native consumers expect effortless service, personalized interactions, and consistent brand experiences across all touchpoints. Companies now compete not just on price or product quality but on the strength of their customer experience (Pine & Gilmore, 1999; Lemon & Verhoef, 2016).

The Limits of Traditional Outsourcing

Despite industry growth, legacy outsourcing models are failing to meet these rising demands. Input-based contracts that focus on Full-Time Equivalents (FTEs), handle time, or call volumes drive operational efficiency but do little to improve loyalty, retention, or customer satisfaction.

Outsourcing is no longer just about doing things cheaper. It must also help companies **do things better for their customers.** This white paper argues that customer service can no longer be treated as a back-office cost center but must become a strategic engine for sustainable growth enabled by the right partner operating model.

2. The Problem with Traditional Models

Traditional customer service outsourcing is built on the principles of cost reduction and transactional efficiency. While useful in earlier eras, this approach increasingly produces **misaligned incentives.** Vendors are rewarded for maximizing efficiency, reducing average handle time (AHT), increasing call throughput and not for customer outcomes like relationship strength, loyalty or retention.

Research-Backed Pitfalls

- **Customer dissatisfaction:** A study by Whitaker, Krishnan, and Fornell (2016) shows a **negative correlation between customer service outsourcing and customer satisfaction**, regardless of whether the service is onshore or offshore.
- **Brand damage:** Customers do not differentiate between a company and its outsourcing partner. Poor service is attributed directly to the brand, leading to erosion of trust and reputation (Coetzee et al., 2019).
- **Hidden costs:** While direct labor costs drop, hidden costs related to customer churn, issue escalations, and operational oversight often **outweigh the savings** (Harter et al., 2021; McKinsey & Company, 2023).
- **Cultural and communication breakdowns:** Language barriers, misaligned service norms, and lack of brand immersion lead to higher friction and customer dissatisfaction (Grant et al., 2009; Raja, 2020).

- **Short-term focus:** Contracts often prioritize short-term efficiency metrics over long-term metrics like CLV, NRR (Net Revenue Retention), and relationship quality (Reichheld & Schefter, 2000).

3. Typical Outsourcing Operating Models

Outsourcing partnerships typically evolve across three dominant operating models - Input, Output, and Outcome. Each model represents a different degree of client control, partner empowerment, and commercial alignment. Understanding these distinctions is crucial for selecting the right model for a given maturity level, strategic intent, and organizational culture.

3.1 The Input Model

Definition

The *Input Model* is the most traditional form of outsourcing. The client organization prescribes nearly all operational details; processes, technologies, scripts, quality measures, and performance standards. The outsourcing partner's role is limited to recruiting, staffing, and managing personnel in line with client-defined workflows. Commercial arrangements are typically cost-plus, productive hour, or cost-per-contact based, directly linking spend to labor consumption rather than business outcomes.

Industry Context
This model dominated early outsourcing in the 1990s and early 2000s, particularly in offshore call-center operations focused on cost arbitrage. Gartner (2023) estimates that more than 60% of legacy BPO contracts in large enterprises still follow an input model structure, often because of risk aversion, regulatory oversight, or compliance constraints.

Advantages

- Full client control over operations, ensuring strict compliance and brand protection.
- Predictable costs through labor-based pricing.
- Ease of benchmarking performance and cost across multiple vendors.
- Useful for immature or regulated functions where control outweighs flexibility.

Disadvantages

- High management overhead for the client due to prescriptive governance.
- Limited partner innovation, as vendors act as labor providers, not problem solvers.
- Low agility - changes require re-approval or re-training across the network.
- Misaligned incentives - partners optimize efficiency (e.g., handle time) rather than customer outcomes.
- High total cost of ownership once oversight and hidden friction costs are included (McKinsey, 2023).

Best Used When:
Control and compliance outweigh the need for speed, innovation, or differentiation (e.g., regulated industries, new vendor relationships, or transitional phases).

3.2 The Output Model

Definition
The *Output Model* represents a transitional stage between transactional outsourcing and strategic collaboration. The client defines *what* must be delivered; such as service levels, KPIs, or quality standards but grants the partner partial autonomy in *how* to achieve these targets. Commercial models blend volume-based metrics (e.g., cost per contact, cost per minute) with performance-linked bonuses for meeting quality or satisfaction thresholds. This hybrid creates the first step toward shared accountability.

Industry Context
This model is now considered “industry standard” for large CX outsourcing networks. Deloitte (2022) identifies it as the dominant approach among digitally mature enterprises that seek consistency and efficiency while beginning to leverage partner expertise in workforce and technology optimization.

Advantages

- Balanced control; the client sets standards; partners innovate within guardrails.
- Reduced management burden compared to the input model.
- Encourages moderate innovation as partners can optimize internal operations.
- Improved accountability through shared KPI frameworks.
- Supports incremental transition toward outcome-based contracting.

Disadvantages

- Ambiguity in accountability can arise if responsibilities aren’t clearly defined.
- Partial misalignment persists: vendors are still rewarded primarily for outputs, not customer or commercial outcomes.
- Moderate dependency on client technology stack limits flexibility.
- Risk of “pseudo-innovation”—partners optimize within the letter of the SLA, not the spirit of transformation.

Best Used When:
The organization is seeking to reduce operational effort while maintaining oversight—particularly suitable for mature partnerships, multivendor ecosystems, or transformation pilots preparing for outcome models.

3.3 The Outcome Model

Definition
The *Outcome Model* represents the most advanced and collaborative stage of outsourcing maturity. Partners are fully empowered to define and manage *how* operations are executed; covering technology, process design, workforce management, and even elements of policy while the client focuses on strategic direction and defining desired *business outcomes* (e.g., CSAT, NPS, retention, revenue enablement, cost-to-serve optimization). Commercial

models shift from activity-based pricing to value-based or gain-share structures, directly tying partner remuneration to customer experience outcomes or financial impact.

Industry Context

According to McKinsey (2024) and Everest Group (2023), outcome-based partnerships now account for ~20% of new CX outsourcing contracts globally, particularly among digital-first enterprises in retail, fintech, and telecommunications. These models are aligned with "value creation ecosystems," where clients and vendors share data, insight, and upside.

Advantages

- Strong strategic alignment; partners succeed when the client succeeds.
- Innovation catalyst; vendors invest in automation, AI, and process redesign to drive measurable outcomes.
- Reduced client effort; the focus shifts from managing performance to managing results.
- Fosters continuous improvement and agile co-development.
- Potential for superior financial returns when outcomes (e.g., CLV uplift) are achieved.

Disadvantages

- High dependency on partner maturity and integrity.
- Complex contracting; defining fair gain-share or outcome attribution models requires strong analytics.
- Cultural and trust requirements; the model thrives only where governance is transparent.
- Measurement challenges; linking CX outcomes to financial results demands robust data infrastructure.
- Transition risk; moving too quickly from input/output models can expose capability gaps.

Best Used When:

The enterprise and partner have a mature relationship, shared technology access, and mutual trust.

3.4 Comparative Summary

Dimension	Input Model	Output Model	Outcome Model
Client Control	Full	Shared	Minimal (strategic oversight only)
Partner Empowerment	Very low	Moderate	High
Commercial Model	Cost per hour / cost per contact	Hybrid (volume + KPI bonuses)	Outcome-based / gainshare
Innovation Level	Low	Moderate	High
Primary Metric	Efficiency	Service quality	Business outcomes (CLV, NPS, retention)
Relationship Type	Transactional	Collaborative	Strategic partnership
Typical Industries	Banking, Government, Regulated sectors	Retail, Telecom, eCommerce (maturing CX)	Digital-first enterprises, Technology, CX leaders
Client Effort	High	Moderate	Low
Partner Value Add	Minimal	Moderate	Transformational

3.5 Research and Industry Perspective

- Deloitte (2022) emphasizes that hybrid and outcome-based models generate up to *30–50% higher ROI* due to improved alignment between customer outcomes and partner incentives.
- Gartner (2023) notes that organizations shifting from input to outcome models see a *20–25% reduction in management overhead* and a *15% improvement in customer satisfaction*.
- Everest Group (2023) highlights that outcome-based contracts correlate with higher innovation scores and partner satisfaction, but also report longer negotiation cycles (average 6–9 months vs. 3–4 for traditional contracts).
- McKinsey (2024) observes that companies adopting outcome-based CX partnerships outperform peers in Net Revenue Retention (NRR) by *5–10 percentage points*.

3.6 Transitioning Between Models

Most organizations progress gradually, not abruptly—from *Input* → *Output* → *Outcome*. Transition readiness depends on several factors:

- Governance maturity and data transparency.
- Partner capability to manage technology, analytics, and innovation autonomously.
- Contracting sophistication and willingness to share risk and reward.
- Cultural readiness for collaboration and empowerment.

Enterprises should view these models as a continuum, not discrete choices. The *Value Operating Model* (VOM) introduced in the next chapter.

4. The Value Operating Model (VOM) : A Framework for Value Creation

4.1 What Is the Value Operating Model?

The Value Operating Model evolves beyond outcome-based outsourcing by explicitly linking customer experience outcomes to financial and relational value. It combines the empowerment and innovation of the Outcome Model with a value-creation framework grounded in Customer Lifetime Value (CLV) and Relationship Quality (RQ). The VOM redefines success not as achieving operational outcomes alone, but as achieving sustainable customer and business growth.

The VOM redefines the relationship between companies and their outsourcing partners by establishing a **clear split of responsibilities:**

- **Enterprise owns the "What":** Defines customer experience standards, service expectations, compliance, and customer outcomes (NPS, CSAT, CLV, RQ).
- **Partner owns the "How":** Determines staffing, operational processes, technology deployment, AI usage, and execution strategies to meet outcomes.

Key Principles of the VOM

- **From Inputs to *Value Outcomes*:** Moving from measuring labor (hours, FTE) to measuring value (retention, CLV growth, Customer Relationship Strength).
- **Empowering Partners:** Outsourcing Partners are granted autonomy in how they achieve outcomes while adhering to brand standards.
- **Aligned Commercial Models:** Contracts reward customer-centric outcomes rather than transactional metrics.

4.2 Differentiating the Outcome and Value Operating Models

While both the Outcome Model and the Value Operating Model (VOM) focus on measurable business outcomes, their scope and intent differ.

The Outcome Model is primarily about achieving defined customer or operational outcomes such as CSAT, NPS, or resolution rates through empowered partnerships. It rewards vendors for delivering these outcomes, but it typically ends where the outcome is achieved. Its success is measured in the realization of contractual KPIs and service targets.

The Value Operating Model (VOM), by contrast, builds upon and extends the Outcome Model. It connects customer outcomes directly to business value creation, specifically Customer Lifetime Value (CLV), Relationship Quality (RQ), and Net Revenue Retention (NRR). Rather than rewarding outputs or even outcomes in isolation, the VOM incentivizes partners for driving sustained value growth, for both the enterprise and the customer.

Dimension	Outcome Model	Value Operating Model (VOM)
Primary Focus	Achieving service or CX outcomes (e.g., CSAT, FCR, retention)	Creating measurable, long-term business value (e.g., CLV uplift, RQ improvement, profitability)
Commercial Basis	Outcome-based contracts tied to specific metrics	Value-based contracts tied to customer and business growth
Time Horizon	Short- to mid-term performance	Long-term value realization
Measurement Lens	Operational and experience KPIs	Economic and relational KPIs (CLV, RQ, NRR)

Governance Approach	Performance review and SLA adherence	Joint value governance with shared dashboards and gainshare

The VOM can therefore be viewed as the *next evolution* of the Outcome Model, transforming outsourcing from a performance-based partnership into a **mutual value-creation ecosystem**.

5. Smart Sourcing: Matching Value with Delivery

An introduction to the CLV + RQ Segmentation Model

Smart Sourcing involves segmenting customers based on **Customer Lifetime Value (CLV)** and **Relationship Quality (RQ)** and aligning service delivery accordingly.

Customer Tier	RQ Level	Sourcing Model	Service Approach
Platinum	Strong	In-house/Onshore	White-glove, proactive
Gold	Moderate	Onshore/Nearshore	Dedicated, empathetic
Iron	Weak	Offshore/Automation	Transactional, efficiency-driven
Lead	Weak	AI, Self-service	Fully automated, lowest cost

To operationalize CLV and RQ, start with segmentation. This paper uses a simple four-tier customer value segmentation model adapted from the CLV and RQ framework:

Customer Tiers (based on CLV):

- Platinum: Highest lifetime value, strategic for growth and brand advocacy.
- Gold: High value, consistent revenue, responsive to loyalty efforts.
- Iron: Moderate value, some potential for growth.
- Lead: Low or negative value, relatively high cost-to-serve.

RQ Levels:

- Strong RQ: High trust, commitment, and satisfaction.
- Moderate RQ: Mixed relationship signals.
- Weak RQ: At-risk or transactional relationships.

Understanding the RQ level by customer segment helps organizations determine what kind of relationship investments are needed and at what cost. Customers with strong RQ are typically more efficient to serve and more responsive to loyalty efforts, while those with weak RQ may require disproportionate effort to retain, hence, RQ becomes a key indicator not just of loyalty potential, but also of service cost efficiency.

6. Governance and Performance Management

From Oversight to Value-Oriented Governance

Traditional governance models in outsourcing have been designed to control, to ensure adherence to SLAs, compliance, and productivity targets. Within the Value Operating Model (VOM), governance evolves from compliance-driven oversight to value-driven orchestration. Its purpose is not merely to monitor performance but to create joint accountability for value creation, measured through Customer Lifetime Value (CLV), Relationship Quality (RQ), and Net Revenue Retention (NRR).

This shift redefines governance as a living system, one that continuously learns, adapts, and optimizes the partnership ecosystem to generate sustainable business and customer outcomes. The central question is no longer *“Are we meeting the SLA?”* but *“Are we improving customer lifetime value and relationship strength sustainably?”*.

In traditional input models, clients must deploy significant operational resources to manage, control, and validate partner execution. In the VOM, accountability and execution shift to the partner, and governance shifts from “monitoring activity” to “monitoring outcomes”. This significantly compresses the amount of client effort needed to manage every partner site, every Line of Business, and every operational decision.

6.1 Engagement Model and Governance Architecture

The Value Operating Model introduces a three-tiered governance architecture that balances strategic alignment, operational transparency, and joint ownership of outcomes.

Governance Tier	Purpose	Cadence	Key Participants	Focus Areas / Deliverables
Strategic Council	Aligning business strategy with customer value objectives	Quarterly	CXO / VP / Partner Execs	CLV growth targets, joint innovation roadmap, gainshare validation
Performance Board	Translate strategic value goals into actionable KPIs	Monthly	Director-level Client + Partner Leads	CLV/RQ dashboards, NRR performance, innovation ROI tracking
Operational Forum	Continuous operational optimization	Weekly	Operations managers, analytics teams (both parties)	Service quality trends, churn risk, predictive metrics, issue resolution

This layered model mirrors best practices identified by Deloitte and McKinsey, emphasizing fewer meetings but deeper conversations anchored in data, value, and accountability, rather than transactional reporting.

6.2 Effort Comparison Across Operating Models.

One of the strongest advantages of this engagement model is the substantial reduction in governance effort required from clients. By separating the “what” (value outcomes and standards) from the “how” (partner-led execution), the VOM removes the need for daily operational control, process approvals, and micro-management characteristic of input-based models.

Governance becomes lighter, more predictable, and easier to scale across partners. The weekly Operational Forums become partner-led, the monthly Performance Board focuses on CLV, RQ, NRR, and cost-to-serve insights, and the quarterly Strategic Council aligns long-term priorities. This structure reduces the number of required touchpoints while increasing the strategic depth of each one.

It also results in significantly improved resource efficiency: VOM governance can operate with materially fewer client-side resources per partner because oversight is based on value dashboards and predictive signals rather than activity monitoring. By concentrating oversight on value, not volume, the VOM delivers a more efficient, lower-effort, higher-impact governance footprint

Dimension	Input Model	Output Model	VOM
Client Effort	Very High (daily monitoring, prescriptive control)	Moderate (shared KPI oversight)	Low (value governance, autonomous delivery)
Meeting Cadence	Daily/weekly operations + multiple check-ins	Weekly + monthly	Weekly ops + monthly value board + quarterly strategy
Decision Burden	High, client approves every change	Medium, some autonomy	Low – partner decisions within defined standards
Data Required	Activity-level data (FTEs, AHT, volume)	SLA + operational data	Value dashboard (CLV, RQ, NRR, cost-to-serve)
Escalations	Frequent, operational	Moderate, quality-based	Predictive + value-based (fewer escalations)
Resource-to-Partner Ratio	High (1:100)	Medium (1:150–200)	Low (1:300–500)
Innovation Effort	Client-driven	Joint	Partner-driven

6.3 Integrated KPI and Value Dashboard

Borrowing from the Smarter Sourcing Decisions framework, governance is enabled by a real-time Value Dashboard.
It integrates operational, relational, and financial performance into one unified view.

Core KPI Categories

1. **Economic Value KPIs (CLV/NRR)**
   - *Customer Lifetime Value growth (ΔCLV)*
     Measures retention and spend increase across customer segments.
   - *Net Revenue Retention (NRR)*
     Indicates revenue retained and grown within the existing base.
   - *Cost-to-Serve by Segment*
     Enables optimization of sourcing and automation investment.
2. **Relational Value KPIs (RQ/Trust Metrics)**
   - *Relationship Quality Index (RQ)*
     Composite of trust, commitment, and effort scores derived from surveys, sentiment, and behavior.
   - *Churn Risk Index*
     Predictive indicator combining declining RQ with transaction and engagement patterns.
   - *Service Recovery ROI*
     Measures the value recovered from proactive outreach and effective complaint handling.
3. **Operational Excellence KPIs**
   - *Customer Effort Score (CES)*
     A leading indicator of friction reduction and ease.
   - *First Contact Resolution (FCR)* and *Average Resolution Time*
     Retained as diagnostic metrics to inform efficiency without dominating governance.
   - *Innovation Impact Index*
     Quantifies the contribution of automation, AI, and process redesign to value outcomes.

4. **Partner Value Contribution Metrics**
    - *Gainshare Contribution:* Value realized from process or automation improvements shared between client and partner.
    - *Innovation ROI:* Value derived from partner-led initiatives measured through NRR or cost-reduction impact.
    - *Governance Health Score:* Assesses responsiveness, transparency, and collaboration maturity across the ecosystem.

6.4 Performance Management Model

The VOM replaces static SLA reviews with continuous performance loops integrating predictive analytics and collaborative problem-solving:

1. **Measure** – Leverage unified CLV + RQ data from Customer Data Platforms (CDPs) and operational systems.
2. **Interpret** – Translate metrics into insight: e.g., *Why is CLV stagnating for Gold customers with strong RQ?*
3. **Act** – Co-design interventions (training, automation, policy changes) to improve targeted outcomes.
4. **Validate** – Quantify improvement through delta in CLV/RQ, not just CSAT shifts.
5. **Reward** – Apply outcome-based bonuses or gainshare when joint value is realized.

Performance management thus becomes a joint accountability loop, where both client and partner teams share ownership for growth and efficiency.

6.5 Value-Linked Accountability (RASCI Extension)

Governance roles are clarified through a Value RASCI model:

Role	Client	Partner	Shared Responsibility
Define Value Outcomes	Responsible	Consulted	—

Operational Execution	Informed	Accountable	—
CLV / RQ Analytics	Accountable	Responsible	Shared insight
Governance Health Monitoring	Responsible	Responsible	Co-owned
Innovation Pipeline	Consulted	Responsible	Co-investment

This ensures transparency in who drives, who enables, and who validates each element of the value chain.

6.6 Continuous Improvement and Learning

In the Value Operating Model, governance is dynamic, not bureaucratic.
Continuous improvement is institutionalized through:

- Quarterly Value Reviews comparing predicted vs. realized CLV growth.
- Innovation sprints co-funded by client and partner to test AI or automation ideas.
- Cross-functional "pods" focusing on key RQ drivers (trust, ease, empathy), using agile methods to iterate and measure impact.
- Benchmarking and Peer Learning: When multiple partners operate within the same ecosystem, governance enables anonymized benchmarking to define *"what good looks like"* without undermining trust or competitiveness.

6.7 Predictive and Ethical Governance

Predictive analytics embedded in the governance dashboard identify emerging performance risks:

- Declining RQ in high-CLV cohorts → triggers early retention action plans.
- Rising cost-to-serve in low-value segments → prompts automation or sourcing adjustments.

Ethical guardrails ensure data transparency, fair treatment, and responsible automation, aligning with brand values and customer-first culture.

7. Commercial Model: Incentivizing for Outcomes

Commercial models determine how risk and reward are shared between the enterprise and its outsourcing partners. In traditional outsourcing, commercial models are typically activity-based, with remuneration tied to labor consumption (hours, contacts) or baseline service outputs (SLA adherence, quality checks). While simple to administer, these mechanisms are increasingly misaligned with customer-centric ambitions and the strategic intent of the Value Operating Model (VOM).

The VOM requires a commercial construct that rewards partners not only for operational performance, but for customer value creation—specifically, improvements in Customer Lifetime Value (CLV), Relationship Quality (RQ), and cost-to-serve optimization. These metrics form the economic foundation of the VOM, and therefore the commercial model must be directly linked to them.

This section expands the commercial framework by:

- Describing which commercial model best fits each operating model (Input, Output, Outcome, VOM).
- Defining the mechanics of a value-based commercial model grounded in CLV/RQ.
- Balancing Risk and Reward

Operating Model	Operating Approach	Model Type	Commercial Reward	Limitations
Input Model	Client defines *all* processes, tools, scripts, KPIs. Partner executes the "how" exactly as prescribed.	**Labor-Based / Activity-Based** • Cost per FTE / productive hour • Cost per contact• Time & materials	• Efficiency • Staffing availability • SLA compliance • Volume handling	• No link to value or retention • Incentivizes speed over quality • No reward for innovation or problem-solving

				• High oversight burden on client
Output Model	Client sets *what must be delivered* (SLAs, quality targets) but partner has partial autonomy in how to achieve them.	**Hybrid: Volume + Performance Incentives** • Cost per resolution • Volume baselines + KPI multipliers • Quality bonuses (CSAT, QA)	• Output quality • First contact resolution • SLA achievement • Some operational improvement	• Still output-focused, not outcome-focused • Limited tie to financial or relational value • Innovation occurs "within guardrails" only
Outcome Model	Client defines desired CX or business outcomes; partner fully empowered to design operations, tools, process.	**Outcome-Based / Gainshare** • Outcome bonuses (CSAT, NPS, FCR) • Shared automation savings • Innovation ROI	• Customer experience outcomes • Efficiency through automation • Journey improvements • Problem prevention	• Outcomes often stop at CX, not value • Difficult attribution • Requires strong trust and data transparency
Value Operating Model (VOM)	Client owns the "what" (value targets, standards). Partner owns the "how" (operations, tech, design). Focus is long-term value creation through CLV + RQ.	**Value-Based Commercials** • CLV uplift incentives • RQ improvement incentives	• Financial value creation (CLV) • Relationship strength (RQ) • Retention improvements • Net Revenue Retention (NRR)	• Requires robust data infrastructure • Needs multi-touch attribution models • Baselines must be accurately defined

	• Churn reduction bonuses • Cost-to-serve optimization share • Innovation gainshare	• Sustainable cost efficiency • Partner innovation tied to measurable value	• Higher commercial design complexity

7.2 Designing a Value-Based Commercial Model (VOM)

A truly value-based commercial model must integrate the CLV + RQ framework from the supporting, ensuring that customer value guides incentives, prioritization, and investment.

Below is a fully developed structure for how a value-based commercial model works inside the VOM.

1. Fixed Base: Capacity + Service Availability

This ensures predictable capacity and operational stability.
The fixed component is typically:

- A capacity retainer covering staffing, management, training, and QA
- A baseline fee for technology, reporting, and governance
- Guaranteed minimum volumes

This protects partners from volume volatility and enables them to invest in innovation upfront.

2. Variable Value Incentives (Core of VOM Commercials)

The variable component drives behavioral alignment and rewards value creation. These components can all be implemented or higher focus components only.

A. CLV Increase Incentive

Partners receive bonuses for measurable increases in CLV, either:

- **Segment-wide CLV uplift** (e.g., Gold segment +3% YoY)
- **Cohort-based CLV improvement** (e.g., customers touched by partner CS teams)
- **Predicted CLV uplift** validated through modeling

This moves the focus from handling contacts to **increasing the financial value of the relationship**.

B. Relationship Quality (RQ) Improvement Incentive

Since RQ is a proven leading indicator of CLV growth and retention , the model includes rewards for:

- RQ score improvement within each CLV segment
- Recovery of high-value customers showing declining RQ
- Improvement of Ease/Effort scores (CES)
- Trust and commitment-building outcomes

Partners can therefore be rewarded for behaviors that prevent churn before it happens.

C. Retention & Churn Reduction Incentives

Retention is the financial heart of CLV. Incentives include:

- Reduction in churn among Platinum/Gold customers
- Increase in repeat purchase frequency
- Re-activation of customers at risk

The contract explicitly rewards partners for **protecting and extending customer lifespan**, a core CLV driver.

D. Value Efficiency: Cost-to-Serve Optimization

Partners are rewarded for sustainable improvements in:

- Automated resolution rates (AI/self-service)

- Reduction in effort-heavy interactions
- Lower cost-to-serve for Iron/Lead tier customers

This ensures that savings from automation are shared through **gainshare**, not hoarded.

E. Innovation Gainshare

Partners earn a share of financial value created through:

- AI-driven quality and workforce optimization
- Predictive operations
- Friction elimination across journeys
- Process redesign

Innovation gainshare becomes a formal, contractually embedded revenue stream—not an ad hoc request.

F. Value-Added Revenue Activities Gainshare

Partners are rewarded for actions that directly generate incremental value through responsible, customer-aligned engagement.

- **Upsell & Cross-Sell Conversion**
  Incentives for converting relevant upsell or cross-sell opportunities that increase customer value without creating friction.
- **Proactive Outreach**
  Reward for targeted outreach to at-risk or high-potential customers that prevents churn, reactivates dormant users, or enables continued usage.
- **Reactivation Success**
  Value credit for bringing back customers with declining activity or RQ, measured through defined conversion windows.

This pillar ensures partners are rewarded not only for preventing churn but also for creating new value through trusted conversations that increase spend, deepen engagement, and reinforce long-term loyalty.

7.3 A working example of an effective model:

The Value Operating Model requires a commercial construct that is simple to administer, financially aligned with value creation, and attractive enough for partners to invest in capability, automation, and innovation. To achieve this, the VOM introduces a four-component commercial structure that balances stability with performance-based rewards.

This model ensures that partners are compensated fairly for delivering capacity and quality while also sharing in the economic value they help generate through improvements in customer experience, operational efficiency, and innovation. Below an example commercial model outline. Actual models my differ based on the incentive and outcome focus of clients.

Model = Fixed base + CLV uplift + Cost to Serve share + Innovation share

1. Fixed Base Coverage (70–80% of Total Partner Cost)

The fixed base represents the foundational element of the contract. It ensures operational continuity and gives partners predictable funding for staffing, management, training, WFM, QA, and basic reporting. Covering roughly **70 - 80% of the partner's total operational cost**, the fixed base provides financial stability without removing the partner's incentive to innovate or perform.

This structure is high enough to fund capability, but low enough to require partners to earn the final 20 - 30% of revenue through measurable value creation.
Examples of what the fixed base includes:

- Core staffing (variable + fixed)
- Floor management & team leadership
- Quality, training, workforce planning
- Technology, seat cost, and service availability
- Governance participation
- Reporting and basic analytics

The fixed base ensures predictability for eBay and cost coverage for partners, forming the stable foundation upon which variable value components can operate.

2. CLV Uplift Share (Value Growth Component)

Customer Lifetime Value (CLV) uplift is the most important value metric in the VOM because it captures the full range of relationship and behavioral improvements, including RQ, churn reduction, retention uplift, and increased purchase frequency.

Partners earn value share through measurable CLV uplift across targeted segments or "influenced cohorts." This KPI consolidates multiple relational drivers into a single, financially meaningful metric.

CLV uplift rewards actions such as:

- Proactive retention
- High-quality service recovery
- RQ-improving behaviors (trust, commitment, reduced effort)
- Friction reduction
- CLV-driven service design and differentiated handling
- Customer upsell activities or re-activation

This is the **value growth engine** of the model.

3. Cost-to-Serve Gainshare (Efficiency Component)

To incentivize partner-led innovation and efficiency, the model includes a gainshare mechanism based on sustainable reductions in cost-to-serve.

Partners benefit financially when they deliver:

- Automation and AI deflection
- Workflow redesign
- Increased FCR and fewer repeat contacts
- Smarter routing and segmentation
- Predictive staffing and WFM accuracy
- Channel shift strategies

- Structural process improvements

Cost-to-serve gainshare aligns partner innovation with eBay's financial outcomes and ensures that efficiency gains benefit both parties. This pillar prevents volume protection behavior and encourages partners to invest in automation without fear of revenue loss.

This becomes the **value efficiency engine** of the VOM.

4. Innovation Share (Value Acceleration Component)

Some improvements generate value that is not immediately captured in CLV uplift or cost-to-serve reductions - particularly early-stage innovation, policy simplification, customer journey redesign, new AI tooling, and long-term capability development.

The innovation share rewards partners for:

- Introducing new automation or digital solutions
- Piloting new technologies
- Creating IP or advanced capabilities
- Process mining and journey analysis
- Proactive value proposals
- Structural CX and operational redesign
- Long-term investments that improve ease, trust, and experience

This component accelerates transformation and ensures partners have a financial incentive to propose and deploy bold innovations rather than waiting for client direction.

Component	Purpose	Impact
Fixed Base	Stability & investment	Predictable, scalable operations
CLV Uplift	Grow customer value	Drives loyalty, revenue, RQ
Cost-to-Serve	Increase efficiency	Drives automation & margin
Innovation	Incentivize creativity	Drives long-term improvement

7.4 Balancing Risk and Reward

The VOM commercial model must balance partner motivation with financial responsibility.

Risk-Sharing Mechanisms

- Partners take on increased accountability for value outcomes
- But risk is shared, not transferred
- Base fees ensure stability
- Bonuses scale with performance
- Upside is potentially significant (e.g., long-term CLV ROI sharing)

Penalty Structure (Used Sparingly)

Penalties focus on:

- Non-negotiable compliance
- Customer trust breaches
- Systemic RQ degradation
- Sustained performance failures

But penalties should not undermine innovation incentives.

8. Technology Enablers

Technology in the Value Operating Model (VOM) does more than support operations—it **enables value creation** by making CLV, RQ, and cost-to-serve measurable, predictable, and actionable. The tools below form a connected ecosystem that allows both client and partner to operate with autonomy, intelligence, and customer-value alignment.

8.1 Customer Data Platforms (CDPs)

CDPs unify transactional, behavioral, and service data into a single customer view.

How CDPs enable the VOM:

- Provide real-time CLV and RQ scoring
- Power Smart Sourcing by routing customers based on value segment
- Enable value attribution needed for VOM commercial models
- Detect churn risks early

Impact: CLV growth, churn prevention, accurate partner incentives.

8.2 AI-Driven Quality & Sentiment Analytics

AI evaluates every interaction for tone, effort, and relational quality.

How this enables VOM:

- Generates predictive RQ signals
- Identifies behaviors that increase or erode customer value
- Replaces survey-only approaches with continuous measurement

Impact: Better governance, earlier risk detection, reliable RQ metrics.

8.3 Intelligent Routing & Orchestration

Routing adapts service levels based on CLV, RQ, or predicted intent.

How this enables VOM:

- High-value customers receive premium handling
- Low-value interactions move to efficient channels
- Partners gain autonomy to optimize delivery

Impact: Targeted experience, optimized cost-to-serve.

8.4 Conversational AI & Automation

Automation supports efficient delivery without sacrificing value.

How this enables VOM:

- Handles high-volume, low-value contacts

- Frees human agents for moments that influence CLV/RQ
- Reduces effort and speeds resolution

Impact: Scalable efficiency, improved customer ease.

8.5 Predictive Workforce Management

ML-driven forecasting ensures staffing matches customer needs.

How this enables VOM:

- Protects service levels for high-value customers
- Reduces over/understaffing costs
- Aligns partner capacity with value outcomes

Impact: Stability, reduced cost volatility.

8.6 Real-Time Value Dashboards

Dashboards unify operational, relational, and financial insights.

How this enables VOM:

- Provide real-time visibility into CLV, RQ, churn risk, and cost-to-serve
- Support strategic and operational governance
- Enable transparent value-based performance reviews

Impact: Shared accountability, faster decision-making.

8.7 Secure Data-Sharing Platforms

The VOM requires data transparency between client and partners.

How this enables VOM:

- Allows partners to act on CLV/RQ insight
- Supports fair attribution for value-based contracts
- Builds trust in shared governance

Impact: Higher partner maturity, credible value measurement.

8.8 AI Coaching & Performance Intelligence

AI guides agents to behaviors that increase value, not just close tickets.

How this enables VOM:

- Reinforces low-effort, trust-building interactions
- Standardizes quality across sites and partners
- Reduces training overhead

Impact: Better RQ and more consistent relationship experiences.

Summary Table

Technology	Core VOM Contribution
CDP	CLV/RQ visibility, value attribution
AI Quality & Sentiment	Predictive RQ, continuous quality
Intelligent Routing	Smart Sourcing, cost-to-serve alignment
Conversational AI	Scalable efficiency, reduced effort
Predictive WFM	Stable service levels, lower cost
Value Dashboards	Transparent governance, data-driven decisions
Data-Sharing	Trust, collaboration, value-based contracts
AI Coaching	Relationship-centered behaviors

9. Implementation Roadmap

Implementing the Value Operating Model (VOM) is not a single project but a staged transformation that touches culture, governance, data, technology, and commercial structures. The roadmap below outlines a practical and sequenced approach to adoption. Each phase builds the foundation for the next, ensuring that teams, partners, and systems evolve together toward value-centric delivery. The emphasis is on **clarity of ownership**, **predictability of adoption**, and the creation of **measurable value outcomes** from the early stages onward.

9.1 Build the case for change

The first stage establishes the strategic rationale, articulating why the shift from input- or output-based models to the VOM is essential. This requires more than a business case; it demands a narrative that makes the consequences of inaction clear. Leaders must understand that traditional models cannot deliver CLV growth, relationship deepening, or long-term customer loyalty—and that the cost of misaligned incentives is rising.

A compelling case for change includes quantified opportunity (CLV uplift potential, churn reduction, cost-to-serve efficiency), alignment with broader strategy, and early examples of fragmentation or value leakage that the VOM will resolve. Equally important is bringing legal, finance, procurement, and partner management into the conversation early, as these functions are often the gatekeepers for future commercial and governance changes.

Risks & Watch Items:
A misaligned or weak case for change creates downstream resistance, especially within teams that benefit from the current model. Partners may express concern over increased accountability or transparency. Leadership sponsorship must be active and visible, not passive.

9.2 Define the VOM Framework

Once the rationale is established, the next phase focuses on defining the core elements of the VOM: the "what" versus the "how," the governance structure, the value KPIs, and the RASCI across client and partner teams. This is where the model moves from concept to operating reality.

Defining the VOM requires clarity on customer value segments, agreement on CLV and RQ methodologies, and the identification of critical standards that partners must meet when exercising operational autonomy. At this stage, the organization also outlines the future-state governance architecture, including the strategic council, monthly performance boards, and operational forums, ensuring each has a clearly defined mandate.

A substantial effort is placed on redesigning KPIs to reflect value creation rather than transactional efficiency. This includes determining which KPIs will be lagging (CLV, retention) and which will act as leading indicators (RQ, CES, sentiment, churn risk).

Risks & Watch Items:
Poorly defined standards or KPIs can create accountability gaps and partner confusion. Overly extensive KPI frameworks risk replicating the oversight-heavy input model. Alignment between Customer Service Organization, Legal, Finance, and Technology teams is critical; any misalignment can create delays or conflicting interpretations.

9.3 Conduct Change Impact Assessment

The transition to a VOM requires changes across people, processes, data handling, and ways of working. This phase analyses the effects of these changes on internal teams, partner organizations, and governance structures.

The assessment identifies which behaviors need to change, which roles need redefining, and which teams will be impacted the most. It looks closely at where legacy habits (e.g., micromanaging partners, interpreting SLAs as outputs, focusing on volume rather than value) may hinder adoption. It also identifies data gaps, technology prerequisites, and skills that must be developed—such as the ability to interpret CLV/RQ trends or work with predictive dashboards.

Risks & Watch Items:
Underestimating change impact leads to adoption fatigue, resistance, and inconsistent application of the model. Partner capability varies significantly - some will adapt quickly; others may require extensive support. Internal teams may struggle with letting go of control unless empowered by leadership.

9.4 Stakeholder Alignment and Communication

This stage ensures that all relevant groups are aligned on the model, its goals, and their role in making it successful. Communication must be targeted: operational teams need clarity on execution; legal teams need clarity on contract implications; executives require visibility into financial impact; partners need predictability and trust.

Alignment includes agreeing on timelines, defining how success will be measured, and creating forums for cross-functional discussion. This is also the stage where early tensions between teams—particularly between operations, commercial owners, and analytics—are surfaced and resolved.

Risks & Watch Items:
If communication is too conceptual or infrequent, stakeholders may revert to old habits. If partners are not included early, they may feel the model is being imposed rather than co-developed. Perceived transparency risks around CLV/RQ data sharing must also be addressed.

9.5 Redesign Commercial Models and Contracts

With alignment secured, the organization transitions to redesigning commercial models to support value-based incentives. This includes defining fixed and variable components, establishing gainshare mechanisms, determining attribution logic for CLV and RQ, and embedding flexibility into contract language.

Legal and procurement teams play a central role in ensuring these models are enforceable, auditable, and fair. Partners must understand not just the reward structure but the operational behaviors required to earn those rewards - automation investment, quality consistency, proactive outreach, and customer segmentation adherence.

At this stage, the organization must also design the data-sharing agreements and reporting standards required for value-based governance.

Risks & Watch Items:
Contract redesign cycles can be lengthy and contentious. Partners may push back on attribution logic if it is perceived as unfair. Without proper baselines and clarity on influence zones, value-based models can be disputed. Overly aggressive timelines risk weakening the commercial constructs.

9.6 Pilot the VOM

Before scaling, the VOM should be piloted with one or two partners or specific customer journeys. Pilots allow the organization to validate CLV/RQ measurement accuracy, test new governance forums, refine dashboards, and validate that partners can operate effectively under the model.

Piloting should focus on learning—not performance—and should run long enough to capture early trend movement in RQ and predicted CLV. It is also an opportunity to evaluate partner readiness, leadership responsiveness, and internal adoption.

Risks & Watch Items:
Pilots fail when scope is too broad, KPIs are unclear, or data infrastructure is incomplete. A pilot partner lacking maturity may produce misleading results. There is also a risk that early mistakes are misinterpreted as structural flaws in the VOM rather than natural learning.

9.7 Scale, Optimize, and Embed

Once validated, the VOM can be expanded across partners, regions, and customer journeys. Scaling involves harmonizing KPIs, rolling out value dashboards, training teams on interpreting CLV/RQ signals, and shifting governance from transition-mode to steady-state.

Embedding the VOM requires formalizing processes, integrating the commercial model, and institutionalizing continuous improvement mechanisms. Predictive analytics become standard, partners receive autonomy within defined standards, and governance focuses on forward-looking value conversations rather than SLA policing.

The ultimate goal is a mature ecosystem where both client and partner share ownership for value creation and innovation.

Risks & Watch Items:
Scaling too quickly can overwhelm teams and expose capability gaps. Technology inconsistencies across regions can undermine standardization. Governance must avoid drifting back toward input-style oversight as volume increases. Sustaining executive sponsorship is essential.

10. Conclusion

The Value Operating Model (VOM) represents a decisive shift in how customer service outsourcing creates impact. Traditional models have focused on efficiency, volume, and narrow performance outcomes, but they do not address what ultimately drives sustainable business growth - **customer value and the quality of customer relationships**.

The VOM reframes customer service as a value engine by anchoring operations, governance, and commercial models in **Customer Lifetime Value (CLV)** and **Relationship Quality (RQ)**. These metrics provide a more accurate and forward-looking view of customer health and business impact than conventional KPIs. They ensure that the work done by partners aligns directly with the enterprise’s long-term success.

By clearly separating the “what” from the “how,” the VOM simplifies accountability and empowers partners to use their expertise, technology, and innovation to deliver better outcomes. Governance becomes more strategic and predictive, supported by transparent data and shared value dashboards. Commercial models evolve from rewarding activity to rewarding **measurable value creation**, ensuring partners succeed when the business succeeds.

The strength of the VOM lies in its ability to improve customer experience, reduce friction, and deepen loyalty - while at the same time increasing operational efficiency and enabling meaningful innovation. It creates a more modern, collaborative partnership structure that is better suited to today’s expectations and tomorrow’s challenges.

The case for the VOM is clear: organizations that adopt it move beyond cost-focused outsourcing and build a customer service ecosystem designed to generate value, strengthen relationships, and support sustainable growth. It positions customer service not as a cost center, but as a strategic driver of long-term business success.

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