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RESEARCH NOTE **EVALUATING THE ON-DEMAND CONTACT CENTER**

THE BOTTOM LINE

Moving contact centers on demand can dramatically reduce ongoing costs while supporting multichannel communication. Properly deployed, on-demand contact centers can deliver payback within a few months.

Providing quality customer service is key to customer satisfaction. For many organizations, the need for quality customer service has driven a significant investment in contact center technology in the past 10 to 15 years. However, much of that investment was made in on-premise call centers before the rise of multichannel customer service. As customer service agents have been tasked with handling more forms of interaction, traditional call centers have three choices:

- Increase costs by investing in new modules, upgrades, and integration to support multichannel customer interactions
- Manage costs and reduce customer satisfaction by not supporting seamless multichannel interaction
- Increase current and future flexibility and reduce operational cost by moving to an on-demand contact center.

Nucleus has found that pursuing the third option, an on-demand contact center, is the best strategy to maximize returns from contact center investments.

THE ON-DEMAND CONTACT CENTER

On-demand contact centers support customer interaction in a similar way as on-premise contact centers; the key difference with on demand is that the software and hardware are supported and maintained by a third party in a multitenant environment. Contact center agents access the application via the Internet (as opposed to a desktop client). With computer telephony integration (CTI), softphones readily support hoteling, virtual call centers, and remote agents.

As contact center technology continues to evolve, the multitenant nature of on-demand enables the vendor to release new innovations faster and more cost-effectively for customers, and upgrades and introduction of new functionality are less disruptive for users (for more details on the benefits of on-demand application delivery, please see i31 – *Hosting versus On Demand*). While on-premise contact center providers may support features and functions such as integrated voice response (IVR), automatic call distribution (ACD), automatic number identification (ANI), predictive dialing, voice over IP (voIP), and analytics, they are more costly to deploy and support than on-demand options.

TOPICS

Customer Relationship Management

Emerging Trends and Technologies

Software as a Service

In the multichannel world, for example, most companies have purchased, integrated, and deployed additional modules to move beyond a simple call center. Analytics and predictive dialing require yet another license purchase and integration effort — and additional ongoing support and administration costs. In on-demand contact center environments, deployments take weeks instead of months or years, and new functionality can be turned on an as-needed basis with limited or no cost.

TOTAL COST OF OWNERSHIP

In their evaluation of on-demand versus on-premise contact center investments, Nucleus finds many organizations first look at the relative total cost of ownership (TCO) associated with the two technology strategies. The key areas to consider when evaluating potential TCO include both initial and ongoing software, hardware, consulting, personnel, and training investments.

Software

The initial software license investment for an on-premise contact center can range from a few hundred thousand dollars to millions of dollars. On an ongoing basis, on-premise contact centers require annual license maintenance fees as well as fees for any upgrades or additional modules. In contrast, on-demand contact centers have no initial software investment, and instead charge ongoing subscription fees that are typically on a per-user basis.

Companies moving from an on-premise contact center solution to an on-demand system are likely to recover their investment on software license maintenance savings alone.

Hardware

The required hardware investment for a typical on-premise call center falls into a number of categories:

- Servers. Initial server purchase costs typically range from \$100,000 to more than \$500,000, depending on the system. Most call center hardware contracts also include ongoing hardware maintenance; typical annual maintenance is approximately 20 percent.
Network. Switches and routers are required to support the call center.
- Backup and disaster recovery. An investment in hardware will be needed to support data backup and resources and disk space for disaster recovery.
- Security and environmental. In addition to the call center applications themselves, companies have to invest in network and data center security, cooling, and management to provide high availability and reliability for call center applications.

In contrast, on-demand contact centers require a limited, if any, hardware investment. Nucleus found that some companies invested in additional network capacity to ensure high-reliability access to an on-demand contact center; however, that was rare.

Consulting

A typical on-premise deployment requires consulting services to support initial development and customization of the software, physical setup of the data center

and network environment, and design and implementation of disaster recovery – as well as support for any needed updates, changes, or upgrades. Although some organizations have the internal IT skills to use their own staff to avoid some consulting costs, most use call center implementation specialists for at least one or all service areas.

Personnel

A personnel investment will be required both initially and on an ongoing basis for any contact center deployment. However, the scale and skill set of personnel required for an on-premise contact center versus an on-demand contact center will be different in a number of areas:

- Initial planning, customization, and deployment. Both an on-premise and on-demand contact center deployment will require personnel staff for initial planning, evaluation, customization, and deployment; however, customization and development times for an on-demand environment are typically fewer than three months while an on-premise contact center team deployment can take more than a year.
- Ongoing support. On-demand contact centers require typically less than one full-time staff person for ongoing support; companies investing in an on-premise contact center will require at least one full-time support staff person.
- Updates and changes. The advantage of the on-demand contact center is that new features can be added and changes can be made without a significant technical investment and upgrades require fairly little personnel time. Companies deploying an on-premise contact center should expect an increase in personnel time requirements any time users experience a software problem, the company needs to make a change in contact center processes or workflows, or any time an upgrade or patch is delivered.

Training

Initial and ongoing training can be a significant cost area for a successful contact center implementation. However, training requirements for on-demand contact centers are typically significantly less – both on a one-time and ongoing basis – than on-premise contact centers for three main reasons:

- Out-of-the-box multichannel integration. Because on-demand contact centers have a consistent visual design environment across different channels and provide an integrated view of customer interactions, contact center agents require less training on finding and accessing customer interaction information.
- More intuitive Web-based interface. The more intuitive nature of on-demand applications means fewer screens to learn as well as the ability to access the application from anywhere, enabling organizations to leverage staff on a part-time or intermittent basis as needed with less training and to more rapidly bring new agents up to speed.
- Less disruptive upgrades. Unlike traditional software upgrades that can be disruptive and require significant training to ensure effective user adoption, on-demand contact center applications deliver incremental upgrades on a regular basis. Most can be adopted based on individual company schedules to avoid call center disruption and minimize the need for training-related downtime.

Table 1. Budgeting for on-demand and on-premise contact centers

	On Premise	On Demand
Initial costs		
Software	\$100,000 to >\$1 million	\$0
Hardware	\$100,000 to \$500,000	\$0 to \$20,000
Personnel	Initial project development, integration, coding, and testing	Initial configuration / integration and testing
Consulting	Significant	Limited initial investment
Training	8 to 10+ hours per user	0 to 5 hours per user
Ongoing costs		
Software	License maintenance (15 to 20% of initial license price)	Ongoing annual subscription
Hardware	Upgrades as needed	None
Personnel	1 to 10 full-time IT staff	Less than 1 full-time staff
Consulting	Needed for significant additions, upgrades, or changes	Seldom needed except for new projects or initiatives
Training	Ongoing to maintain competence	Ongoing to take advantage of new features and improve performance

OTHER IT ADVANTAGES

Although many organizations begin their evaluation of on-demand contact centers with a TCO evaluation, it's important not to overlook the other advantages IT gains when the contact center goes on demand:

- Better utilization of IT staff. IT staff once devoted to tactical support of the contact center can be focused on more strategic issues and systems.
- High service levels even if volumes spike. An established on-demand vendor will have a fully operational and robust data center that delivers enterprise-level service and can support call volume dynamics and load balancing across multiple customers. Because vendors support many deployments and have extensive expertise in troubleshooting, proactive monitoring, and management, clients benefit from lower downtime, fewer dropped calls or sessions, and better use of data.
- Third-party application integration. Larger on-demand vendors typically offer out-of-the-box integration capabilities with ERP systems such as Oracle, SAP, or Microsoft Dynamics. Companies don't need their own developers to write the application integrations, and they avoid incurring the testing, certification, and maintenance costs.
- Ease of upgrading. The vendor, and not the customer, takes on the responsibility of adding new technologies and enhancements such as Web 2.0 features or mobile access capabilities. Moreover, these features come integrated with the core contact center solution and don't require testing or certification by the customer. The contact center agent usually isn't even aware of the upgrade or impacted by it, eliminating potential business disruption.

For example, Nucleus found one resort company that considered moving to an on-demand contact center from its Aspect-based solution could support Web chat, e-mail, telephone, and instant messaging within one application — whereas adding those capabilities to Aspect would have required a significant additional software and integration investment. The company achieved a payback from its on-demand

contact center investment in two months just by eliminating its ongoing license maintenance fees, and was also able to increase customer satisfaction, booking rates, and staff productivity by enabling remote staff to support incoming communications.

Another company Nucleus analyzed, in the high-tech industry, moved from five separate internal and external applications to a single RightNow contact center. After deploying RightNow, the company re-deployed the equivalent of a full-time IT staff professional, delivering a savings of \$60,000 per year. The company also eliminated two other full time positions that involved updating the customer knowledge base for the company's international business. This reduction saved the company \$100,000 per year.

BUSINESS BENEFITS

Finally, beyond considering the simple cost savings and benefits to IT provided by an on-demand contact center, organizations should evaluate the additional benefits and potential competitive advantage that the flexibility of an on-demand contact center can provide:

- **Faster time to benefit.** On-demand contact centers can be deployed in weeks as opposed to months or years, and upgrades can be almost transparent to end users, enabling companies to quickly adapt to changing customer demands, technology changes, or the competitive environment.
- **Increased customer insight.** Having more available channels and customer interaction data assists with reporting on customer pain points or demands. Companies can gain rapid insight into customer needs, improve best practices, and increase profits through more targeted and effective cross selling and up selling.
- **Support for geographical distribution.** Because agents don't have to sit in a dedicated call center, companies can hire contact staff where they cost the least and avoid relocation costs — or include other remote staff in the contact center queue on an ad-hoc basis. The application automatically assesses a customer inquiry or interest, and directs them to the most available and appropriate agent.
- **Greater staffing flexibility.** Because there are lower fixed costs, and subscription costs are on a per-user basis, companies can bring on new agents as needed to respond to sudden spikes in demand, particularly during seasonal sales cycles, and maintain fewer agents during slower periods. For example, Nucleus found one governmental organization that was struggling with seasonal call volumes was able to use an on-demand contact center to direct a significant portion of inquiries to e-mail and Web resources, reducing the need for short-term staff to handle peak inquiry times.
- **Workforce flexibility.** Because the application requires only Internet connectivity and a telephone, working at home is available to agents who want to avoid the expense of commuting or work limited hours. This is particularly useful for companies that want to hire staff with flexible or part-time hours, and may enable organizations to retain members of the retiring work force on a part-time basis.
- **Individual agent productivity gains.** The access to multiple channels makes call center agents more productive and better able to meet all types of customer interaction demands, allowing companies to reduce headcount, more

effectively consolidate and deploy staff, or support new CRM initiatives. *"End users save time seeing the full customer contact history,"* said one user at the high tech company using RightNow. Agents don't have to cut and paste information between different screens for different contact center systems. There is one database with the full customer history. *"It saves a minute or two for each customer. The number one motivation wasn't the system costs, but the customer experience."*

BEST PRACTICES

Although the move to an on-demand contact center requires significantly less time and investment than an on-premise one, companies should still carefully evaluate their technology and deployment strategy to ensure effective user adoption and positive return on investment. Key areas to consider include:

- Vendor selection. Choose a technology and vendor that is a good fit. Vendors with vertical solutions or a significant track record in similar customer accounts will be able to provide both more out-of-the-box functionality and guidance on how to best support a deployment in your environment.
- Consultant selection. The vendor should either be able to provide consultants directly or recommend qualified partners to assist with the deployment. Ideally, a consultant will have already performed similar vertical deployments and have best practices and templates available. For example, if there is a significant data migration required from its legacy system to the on-demand solution, an implementer should have knowledge of special tools or database expertise needed to reduce risk.
- Training. Although end-user training for on-demand applications tends to be limited because the applications are fairly intuitive, training will still be needed to promote effective adoption and use of the application. Initial classes are helpful but targeted online tutorials or wizards that help users when they need it will ensure ongoing success.
- Networking. Talking to other organizations that have deployed the application can help to avoid deployment mistakes, save time, and implement best practices to reduce risk and maximize ROI.

CONCLUSION

Quality, consistent customer interactions are key to customer retention and growth, and contact centers are at the core of those interactions. Organizations seeking to differentiate themselves from their competitors are increasingly looking to customer interaction as a way to rise above the pack, and as new technologies such as chat and mobile access emerge, those that can support them quickly and effectively will be more successful.

An on-demand contact center gives organizations the flexibility to leverage new technologies and a geographically distributed workforce as well as to expand or contract as needed — at a far lower initial and ongoing cost than a traditional on-premise contact center. Those with a legacy system today will likely find they will spend less per year on an on-demand environment than they spend on software maintenance fees alone today. Those considering investing in an on-premise system today are taking on more cost and risk than is necessary and will likely be burdened with greater ongoing cost and less agility.

Organizations looking for an opportunity to reduce costs while driving further efficiencies in contact center operations should consider moving to an on-demand contact center environment.

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