

**Blowing Past the Fluff: Cloud Contact Centre Total Cost of Ownership**

# Cloud Contact Centre Total Cost of Ownership

The true financial, operational, and qualitative differences between cloud and premise-based contact centres



# Cloud Contact Centre Total Cost of Ownership

The true financial, operational, and qualitative differences between cloud and premise-based contact centres

Companies across industries find themselves struggling to keep pace with today's social and mobile-connected customer<sup>1</sup>. Customers are using a wide range of digital channels (mobile, social, IVR, web, email, chat) to interact with companies when and where they choose. Today's customer expects near instantaneous responses from the companies they reach out to for support, regardless of the channel or channels used.

Meanwhile, agents able to access a full range of customer, product, and transactional information from one centralized desktop can handle a greater number of customer calls, achieve higher first contact resolution rates, and help strengthen customer loyalty and improve business outcomes.

Ultimately, the benefits of the cloud are speed to deploy and cost. When business leaders consider the total cost of ownership (TCO) of cloud versus premise-based contact centre platforms, they need to examine the amount of time it takes to deploy a solution and the business benefits that can be obtained *now* without having to wait weeks for deployment, in addition to the overall cost of the solution. For instance, how much revenue will be lost if it takes three to six months to deploy a premise-based platform? A cloud solution is quickly implemented, allowing for more timely enjoyment of the cost benefits provided compared to a premise-based solution<sup>2</sup>.

## Breaking it down

To date, industry estimates on cloud contact centre ROI range from 9 to 27 percent<sup>3</sup>, with IT and operational differences between cloud and premise-based contact centre platforms accounting for the wide range. These factors include the size of a business, the number of IT personnel needed to support a contact centre's hardware and other IT components, whether the organization plans to undergo time-division multiplexing (TDM) conversions, as well as less obvious costs such as those associated with servers and other technologies, in addition to IT personnel used to support premise-based environments<sup>4</sup>.

"For some companies, the TCO will be closer to 9 percent while for others it will extend to as much as 27 percent due to the breadth and intensity of these factors," says Brian Shepherd, executive vice president of customer strategy and customer technology services at TeleTech.

Indeed, the TCO can vary based on different IT and operational aspects of contact centre platforms. Proprietary research conducted by eLoyalty finds that shifting from a premise-based contact centre environment to a cloud platform results in as much as a **15 percent reduction in IT personnel costs** depending on the number of IT resources dedicated to supporting a premise environment<sup>5</sup>.

## Highlights

Supported by insights and research from **TeleTech**, this white paper will provide readers with a detailed categorization of cloud versus premise-based contact centre TCO, including hidden or obscure costs. Readers of this white paper will discover:

- **The quantitative** financial, functional, operational, and strategic considerations for cloud versus premise-based contact centre TCO.
- **The qualitative** differences between cloud and premise-based contact centre platforms, including the ease of adding new channel support along with soft benefits to the agent and customer experience.
- **The cost differences for cloud** versus premise-based platforms between outsourced and hybrid contact centres.
- **The impact** on the customer experience when using cloud versus premise-based contact centre platforms and its correlation to revenue protection and other business outcomes.

## A Quantitative Assessment of Cloud versus Premise TCO

Just as there are various elements required to provide a great support experience, including ease and speed of customer service and ability to arm agents with customer data, multiple components must be considered when assessing the full TCO of a contact centre platform. Each of these factors and their weighting will vary for different companies depending on their specific requirements.

For instance, a contact centre that hasn't upgraded its PBX switch for 10 years or more may be looking to transition

to the cloud to improve deployment speed, versatility, and cost. The benefits of adopting a cloud solution compared to remaining in a premise-based environment should be evaluated based on these criteria<sup>6</sup>.

While it's critical to focus on the discrete TCO differences between cloud and premise-

based contact centres, it's also important to get the big picture. According to 2013 research by Aberdeen Group, companies deploying contact centres in the cloud **spend 27 percent less** on their annual contact centre costs than their peers, averaging \$112.5 million versus \$155 million.

Companies deploying their contact centres in the cloud spend 27 percent less than their peers on their annual contact centre costs.

### CapEx versus OpEx

One of the major financial advantages of migrating to a cloud contact centre are the benefits realized by shifting from capital expenditures (CapEx) for software, servers, etc. to an operating expenditures (OpEx) model<sup>7</sup>. CapEx typically requires a significant one-time investment in equipment (e.g., \$100,000 for software) in addition to ongoing support costs for contact centre applications along with the servers and other peripheral devices<sup>8,9</sup>.

With cloud contact centres, companies don't have to commit CapEx as significantly as with premise-based deployments. Instead, they typically pay a monthly fee, freeing up cash.

### Breaking it down

Adoption of a cloud contact centre provides a variety of operational, functional, and financial benefits simply not available in premise-based applications. A cloud contact centre offers the potential for true agent virtualisation by exposing a single contact queue and contact routing engine across all agent locations, including branches, retail stores, home agents, and even outsourcer locations, without the need for third-party network call routing or polling technology<sup>10</sup>. This uniformity in call handling gives users the ability to define routing and business logic across the enterprise from a centralized location without the limitations and complexities typically associated with multisite call routing architectures and systems.

### The Cost Benefits of Cloud-Based TDM to VoIP Conversions

Many companies are recognizing the increased flexibility and cost benefits of moving their voice and data traffic onto a single network. Shifting to a Voice over IP (VoIP) network offers tangible benefits to contact centres as well, including reduced overhead associated with operating separate networks during peak periods of call volume.

Perhaps the greatest advantage for companies adopting cloud contact centre platforms is the ability to skip the transition from time division multiplexing (TDM) to VoIP, immediately obtaining the cost and scalability benefits VoIP has to offer.

### Comparing Premise and Cloud Contact Centres

FACTORS	PREMISE	CLOUD
Cost to Deploy	Costly, time-consuming	Less costly, fast
Upgrades	Labourious	Straightforward
IT Requirements	Extensive	Minimal
Expenditure Type	CapEx	OpEx
Agent Productivity	Low	High
Impact on Customer Experience	Stringent	Responsive
Source: eLoyalty <sup>9</sup>		

The pooling of agents across the enterprise using a cloud solution allows companies to realize several efficiency and business advantages compared to a traditional premise multisite contact centre. A single virtual cloud contact centre will lead to more accurate call routing by better matching a customer’s needs with an associate’s skill attributes. As contacts are routed with increased accuracy, the following tangible benefits can be achieved:

- Associates increase productivity or utilization with each contact handled and subsequently reduce hold and queue times. This leads to a lower Average Speed of Answer (ASA).
- Reduced Customer Abandons as measured by the Abandonment Rate (ABA).
- Improvement in Customer Service Levels (CSL).
- Increased flexibility to accommodate high and low call volumes.
  - Low Volume Days— Reduces a company’s overall staffing requirement with better utilization of available agents.
  - High Volume Days— Reduces queue and hold times in heavy or peak intervals by leveraging agent availability across the enterprise.
- As customers are better matched with the available resource best qualified to handle their inquiries and resolve problems, chances of first contact resolution (FCR) increase dramatically.

Thirty years of empirical data assimilated through first-hand experiences gained from TeleTech managing its own

approximately 30,000 agent contact centres on premise and in the cloud, extensively corroborated by third-party research, support these cloud benefits. The following section highlights some of these detailed findings.

- **An 8 to 22 percent improvement in first contact resolution rates**, depending on the size of the customer support team and the level of advanced functionality adopted<sup>11</sup>. In order to resolve customer issues quickly and completely, agents require access to relevant customer and product information. According to a study conducted by Dimension Data, the greatest contributor to low FCR rates (60 percent) is a lack of access to customer and systems data<sup>12</sup>. Silos of premise-based customer information distributed across various functions and channels make it harder for agents to find the needed information. Companies on the higher end of the cloud maturity model not only can use a cloud platform to overlay existing systems for customer data integration, they also use searchable databases to locate the necessary data.

A cloud contact centre offers the potential for true agent virtualisation.

FCR improvements have also been shown to have a direct positive effect on customer and employee satisfaction. According to SQM Group, for every 1 percent of FCR improvement, contact centres will see a 1 percent improvement in customer satisfaction rates (CSAT) and 1 to 5 percent improvement in employee satisfaction<sup>13</sup>.

**Five-Year TCO-Hosted Cost Savings % Over Corresponding Premise Deployment**

SEATS			
CONFIGURATIONS	100	250	500
ACD Only	9%	10%	19%
ACD+	21%	28%	39%
Full Function	23%	34%	43%

Source: Frost & Sullivan, "Premise vs. Hosted Contact Centre: Total Cost of Ownership Analysis," 2011

Contact centres can lower the cost of call handling and workforce optimization infrastructure by as much as 43 percent over a five-year period by adopting cloud contact centre platforms instead of installing premise-based technologies, according to a Frost & Sullivan report<sup>20</sup>.

In addition, cloud contact centre platforms also offer improved call routing with a virtual contact centre. With the cloud, it doesn't matter whether agents are located within a physical call centre, in a satellite contact centre, or are work-at-home agents. Intelligent call routing capabilities offered via the cloud can be used to match callers with the agents best trained and suited to meet their needs. A report by Aventi Group finds that one company using cloud-based intelligent routing capabilities was able to increase its conversion rate from 29 to 52 percent while raising the revenue per agent per minute from \$4.13 to \$4.67<sup>14</sup>.

- **A 27 percent improvement in customer contact abandon rates** (Aberdeen)<sup>15</sup>. Companies adopting cloud platforms also enhance the customer experience by matching customers to agents best able to address their needs, resulting in increased customer satisfaction and reducing abandon rates from 6.2 to 4.5 percent compared to premise-based systems. Companies that are able to improve their responsiveness to customers have also been shown to generate lower customer churn, higher customer satisfaction, and increased revenue.
- **A 35 percent improvement in uptime** (Aberdeen). Cloud contact centres on average experience less downtime (2.4 hours versus 3.7 hours per year) than companies relying on heavily patched legacy systems.
- **A 3 to 5 percent average reduction in IT headcount**<sup>16</sup>, with a decrease of as much as 15 percent in organizations with disproportionate IT support. While in-house staff is no longer needed to support applications previously managed on premise, there are other factors contributing to the reduced need for IT personnel. In addition to savings realized by a decrease in the number

of FTEs (full-time equivalent IT workers) needed to support ancillary systems (servers, storage), expenses associated with training IT employees on premise software certifications along with the time spent in certification classes may be redirected.

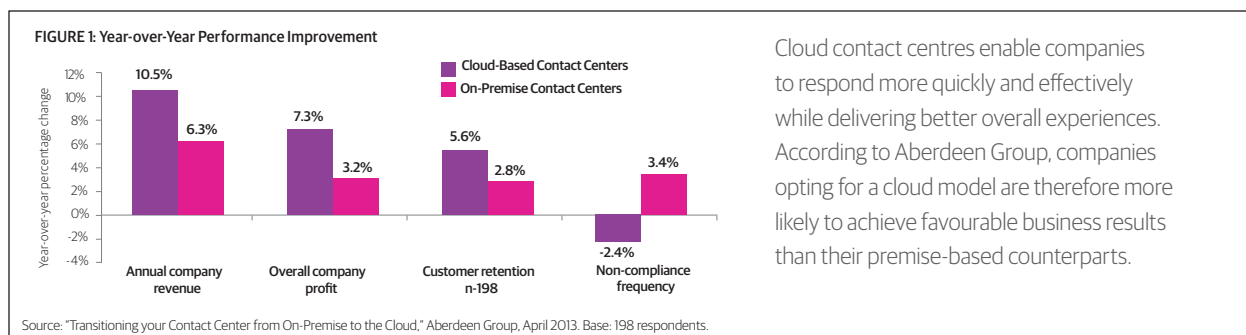
There are also cost differences between cloud and premise-based contact centre platforms that executives either overlook or intentionally skirt to avoid political backlash. "No one wants to be the decision-maker who decided to take five jobs out of the IT department," says Tina Valdez, strategic product specialist at Cisco. "Instead, what they really should do is evaluate how the five IT staffers can be transitioned into strategic development projects that can benefit the company's customers and its business," she adds.

Significant cost savings result from reduction of FTEs, including a decline in training and certification costs.

**Important TCO distinctions**

It takes less time to deploy a cloud solution, typically a matter of weeks even with customization, whereas premise-based solutions can take 18-24 months or even longer, particularly when they're deployed by lean in-house IT staffs struggling to contend with multiple projects simultaneously<sup>17</sup>. It should also be noted that any time that IT resources are dedicated to working on a premise-based implementation, they are unable to work on other projects, serving to further impact productivity.

The cost of premise-based implementation can also be viewed in terms of the operational and business benefits



Cloud contact centres enable companies to respond more quickly and effectively while delivering better overall experiences. According to Aberdeen Group, companies opting for a cloud model are therefore more likely to achieve favourable business results than their premise-based counterparts.

only available through a cloud implementation, such as rapid deployment and new channel support. Meanwhile, many companies shifting from premise to cloud contact centres are able to reduce the size of their data centres.

While those cost savings may not be immediate, over time companies that have transitioned to the cloud enjoy significant savings in data centre real estate and cooling/power costs.

**"Chat provides a significantly higher close rate on sales programs than voice."**

—Brian Shepherd,  
executive vice president  
of customer strategy and  
customer technology  
services, TeleTech

Once a company adopts a cloud contact centre platform, it's the provider's responsibility to refresh the platform and add new functionality and channel support as they materialize.

Meanwhile, executives don't have to wrestle with build versus buy decisions each time new capabilities (i.e., chat) emerge. If contact centre leaders decide they want to test out new channel functionality such as chat or social, they can easily run a pilot using a cloud platform, evaluate the results, and consider their options before making a commitment to implement the change.

Having the freedom and flexibility to test out and evaluate new functionality and support makes good business sense. Industry research finds that inbound multichannel contact centres have the potential to generate at least 10 percent of total revenue from the sale of new products and services<sup>18</sup>, coinciding with our own findings regarding the use of chat in the contact centre for sales support.

"We find that chat provides a significantly higher close rate on sales programs than voice," says Shepherd.

## The Qualitative Benefits of a Cloud Environment

In addition to the financial, productivity and operational benefits gained from a shift to a cloud contact centre, companies will also realize a variety of qualitative improvements.

The flexibility of cloud-based contact centre services can easily be adjusted to meet rising or falling call volumes on the fly or to quickly add functionality such as new channel support. Also, because cloud contact centres are able to provide agents with a spoke-and-hub approach to overseeing and managing customer interactions across multiple channels, agents are able to obtain a harmonized view of all customer contacts from a single console. For instance, Aberdeen research reveals that cloud contact centres are 27 percent more likely to be integrated with CRM systems than those that are premise-based. This universal view from a single screen enables agents to identify the channel or channels a customer previously used for support along with the factors that may have triggered an escalation to speak to a live agent.

"The cloud offers agents and contact centre supervisors a much more unified view of customer data, particularly for those organizations that have not already conducted a CRM integration," says Shepherd. When agents have a complete view of customers—including their most recent interactions, and information about whether those issues were resolved satisfactorily—they can then provide relevant and timely support. Providing this level of responsiveness helps to improve customer satisfaction and Net Promoter Score™ while stimulating other business benefits.

### Customer satisfaction correlates to customer loyalty.

Forrester Research calculates that a 10 percent improvement to a company's customer experience score can translate into more than \$1 billion in increased revenue and other benefits<sup>21</sup>. On the flip side, poor customer service experiences can cause customers to leave a brand. Forrester survey data reveals that roughly one-third of a company's customers have poor experiences and could defect, resulting in millions of dollars in lost revenue.

### Strengthening the agent experience

Meanwhile, providing customers with better experiences starts with improving the agent experience. Agents having difficulty accessing the right content to solve customer issues become frustrated, fuelling agent

turnover. The costs to onboard and train new agents can include weeks and thousands of dollars.

According to ContactBabel, the average agent attrition rate for contact centres in a growing economy is roughly 25 percent<sup>22</sup>. Agent attrition not only adds to recruitment and training costs but also makes it difficult to meet business targets since there aren't enough experienced, high-quality agents available. Cloud contact centres can help organizations boost agent retention through a

number of improvements, such as simplification of access to information or providing a more flexible environment to allow for work-at-home options. Providing this kind of flexibility is critical as organizations continue to ramp up their use of at-home agents. In 2000, just one in ten companies used at-home agents, according to ICMI<sup>23</sup>. By 2010, one in four organizations was using at-home agents and the number continues to grow. While the value of the associate experience is not easy to quantify, it is nevertheless critical when judging productivity and agent satisfaction and, ultimately, customer satisfaction

"As companies strive to keep pace with customer experience expectation, they need a contact centre platform that is nimble and responsive enough to keep in stride with customers today—and tomorrow."

—Brian Shepherd,  
executive vice president  
of customer strategy and  
customer technology  
services, TeleTech

### Dispelling Three Myths of "The Cloud"

Over the years, several myths have been circulated about the so-called hidden costs of cloud contact centres along with fables about security vulnerabilities and other "gotchas" associated with hosted environments. We set out to dismiss these illusions one by one:

**Myth #1: Companies that transition to the cloud lose all control of the contact centre.** Although organizations transitioning to the cloud effectively transfer management of software and hardware support and maintenance to the cloud provider, they don't abdicate control over their technology strategies, nor do they abandon jurisdiction over agent training. Companies shifting to a hosted environment continue to oversee the strategic direction of the contact centre and customer service. The technology partner merely provides the underlying technology and ensures that it's continually refreshed.

**Myth #2: Cloud contact centre platforms are not as secure as premise-based systems.** Security experts contend that most breaches occur as a result of physical tampering with **in-house** systems. The U.S. Federal government continues to incentivize agencies to move their computing activities into the cloud under the FedRAMP program, a testament to the level of confidence that key decision makers are placing in the security of cloud computing.

**Myth #3: A shift to cloud computing results in major IT staff cuts.** The number of IT staff impacted by transitioning to cloud computing isn't as dramatic as some people claim. As mentioned previously, our research finds that the average organization experiences a 3 to 5 percent reduction in IT staff contact centre support.

### Building an Adaptive Model for the Future

As Nils Bohr, a Nobel laureate in physics once said, "Prediction is very difficult, especially if it's about the future<sup>24</sup>." While it is challenging to forecast what may lie ahead for customer service and contact centres, it's a safe bet that we'll continue to see new contact channel innovations emerge.

Cloud contact centre platforms provide companies the flexibility and agility to accommodate future customer

service preferences and channel behaviours. Companies developing an adaptable, multichannel approach to customer service are better able to respond to customers quickly and effectively, building trust and resulting in more efficient interactions.

As new channels emerge and citizens increase their use of them, cloud contact centres can be adjusted to meet changing citizen traffic between channels on the fly. Companies looking to compete in the future will need the agility to deliver fast and knowledgeable responses to customer issues, such as a sudden up-tick in demand for information about a hot new product being offered or resolving a product defect that has gone viral in social media.

Future-proofing the contact centre isn't just about using a platform where new channels can be quickly added. To attract, engage, and retain customers, companies will need to arm agents with up-to-date customer insights enabling informed and relevant communications based on the full spectrum of pertinent information about customer transaction, behaviour, and preferences.

"As companies strive to keep pace with customer experience expectations, they need a contact centre platform nimble and responsive enough to keep in stride with customers today – and tomorrow," says Brian Shepherd.

### **Considerations for Outsourced and Hybrid Contact Centres**

One of the operational and financial benefits of cloud contact centres is the flexibility to route calls to remote agents, including at-home staff. Regardless of where agents are located – whether in a dedicated contact centre, in an outsourced facility, or working from home – a cloud model can more readily support agents than premise-based systems. These and other advantages of a cloud platform also extend to organizations relying on outsourced contact centres or a mix of in-house and outsourced contact centres.

Regardless of whether a company relies on a single contact centre or a mix of in-house and outsourced

contact centres across different geographies, customer service leaders are able to use cloud-based workforce management tools to gain a sole, consolidated view of customer service activities. This insight includes a single view of all calls coming into the contact centre from the IVR as well as agent quality assurance reports, wherever the associate may be located.

Just like in-house contact centres, outsourced contact centres can be added to a cloud contact centre platform within a matter of days instead of the weeks or months it would take to install premise-based applications. Meanwhile, companies utilizing a cloud contact centre model don't have to worry about the hassle of keeping outsourced contact centres on the same version of workforce management and agent desktop software. Each of the contact centres supporting the company is on the same platform, automatically undergoing the same refresh cycle for upgrades and enhancements.

When all outsourced and in-house agents are on the same agent desktop and telephony systems, customer service supervisors achieve a consolidated view of agent performance reporting as well as the ability to compare performance between in-house and outsourced agents or teams.

Cloud contact centre platforms also provide companies with flexible call routing options for outsourced or remote contact centres. Cloud telephony solutions enable organizations to easily configure the time of day or day of week for routing calls between an in-house contact centre and an outsourcer. Cloud solutions also offer the agility to reroute calls between locations quickly and easily as demand dictates.

By providing outsourced agents with the same user interface and contact centre apps as in-house agents, companies are able to lower the cost of training by having outsourced agents use a single system for supporting customers. Contact centre leaders can also expect more consistent call handling from all agents – in-house and outsourced – with consistent metrics for evaluating agent performance.



## Conclusion

When companies compare the differences between cloud and premise-based contact centres, it's critical to identify what will be needed 18 months or even three years from now. While it's difficult to predict what the future may hold, it is possible for company leaders to opt to place the organization on a path that offers flexibility and responsiveness to customers' needs.

In evaluating different contact centre platforms, decision makers should also consider the differences offered in channel support (chat, email, social, desktop video), and determine their priorities in delivering customer support through specific channels. Perhaps most importantly, the company must identify a partner able to help it meet both near- and long-term goals, including the ability to achieve customer service and satisfaction targets.

Choosing the right contact centre platform has critical strategic implications. As global competition makes it increasingly difficult for companies to contrast themselves by product or price, customer support has become the cornerstone for competitive differentiation.

"Companies that are able to provide customers with cohesive support experiences across all of the channels customers use position themselves to strengthen the customer-company relationship, heighten customer satisfaction and loyalty, and to distinguish themselves in the market," says Brian Shepherd.

Understanding the true TCO of cloud versus premise-based contact centres is the first step toward preparing for the complexity and opportunities that lie ahead with customer support.

### About eLoyalty

eLoyalty, a TeleTech company, provides customer technology solutions that simplify service and deliver exceptional customer experiences at a lower cost. Using today's most advanced cloud, on-premise, and hybrid technologies, eLoyalty helps companies harness their existing technology investments and integrate legacy systems into a central customer collaboration hub that enables seamless service across all communication channels. Superior customer experiences start with an integrated approach, and eLoyalty unites all the capabilities businesses need to engage customers and build loyalty with every interaction.

For more information, visit [www.loyalty.com](http://www.loyalty.com).

Net Promoter Score™ is a trademark of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld.

## Endnotes

- 1 Hoffman, Tom (2013, Jan. 2). 1to1 Executive Dialogue: The Changing Face of Customer Experience.
- 2 Minkara, Omer (2013, Jan.). The Hidden ROI of a Cloud-based Contact Centre. Aberdeen Group.
- 3 2013. Proprietary research. TeleTech.
- 4 Spoken Communications (2012, Feb. 13). SIP vs TDM for the Contact Centre.
- 5 2013. Proprietary research. TeleTech.
- 6 Gowdy, Nick (2010, June 15). Hosted VoIP Phone Systems vs. TDM: Who Really Wins on Cost? FreedomIQ.com.
- 7 White, David (2012, July 16). Capex vs. Opex Expenditures: How Technology Financing is Evolving. CarouselConnect.
- 8 Golden, Bernard (2012, February 17). How to Break Down the OpEx vs. CapEx Cloud Computing Debate. CIO.com.
- 9 Landoline, Ken (2012, April 24). Cloud-based Contact Centres – The Appeal Beyond OpEx vs. CapEx. Current Analysis.
- 10 Fluss, Donna (2013, January). Why Contact Centres Are Moving to the Cloud. CRM Magazine.
- 11 2013. Proprietary research. TeleTech.
- 12 2012, April. Best Practices for Improving First-Contact Resolution in the Contact Centre. Oracle Best Practice Guide.
- 13 Desmarais, Mike. First Call Resolution (Research & Best Practices) White Paper. SQM Group.
- 14 2012. The Cloud Contact Centre: Is it the Right Time? Aventi Group Consulting Services.
- 15 Minkara, Omer (2013, April). Transitioning your Contact Centre from On-Premise to the Cloud. Aberdeen Group.
- 16 2013. Proprietary research. TeleTech.
- 17 2013. Proprietary research. TeleTech.
- 18 Jasmand, Claudia; Blazevic, Vera; de Ruyter, Ko (2012). Generating Sales While Providing Service: A Study of Customer Service Representatives' Ambidextrous Behavior. Journal of Marketing.
- 19 2013. Proprietary research. eLoyalty.
- 20 2011, May 3. Hosted Contact Centres Save More Than 40% Over 5 Years Versus Premises-Based Offerings. Contact Professional.
- 21 Leggett, Kate (2013, January 4). Customer Service: Why It Matters—And How To Do It Right. Forrester Research.
- 22 2013. Contact centre agent attrition increases; not necessarily negative. Fonality Inc.
- 23 Levin, Greg. Special Report: The State of Home Agent Staffing. Off Centre.
- 24 2013. BrainyQuote.com.