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RECOMMENDED READING

Cost Structure and Distribution in Today's Contact Centers

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What do contact center costs really look like in today's economy? In this excerpt from Strategic Contact's white paper, the authors model costs for three representative centers — large, medium and small.

For years, contact center professionals of all sorts have been quoting statistics about the relative costs of contact centers. With a wide range of percentages and variables and changes in costs over the last decade, we began to wonder how costs really are distributed in a contact center

today and we set out to put some clarity to the numbers. We think it's important to understand the structure of the cost of a contact center, as it could (and should!) influence strategic investment decisions, organizational, process or technology changes, and tactical adjustments that might have more wide-ranging impacts on overall operational costs. And we think it is important to base these numbers not on surveys or historical data, but rather on modeling analysis that uses operating costs that are representative of today's contact centers and looks at true cost to the business.

Our approach was to model contact center costs for representative centers using a process-based analysis approach and comprehensive modeling tool. We varied the key elements that can change a center's makeup to see what impact it has on the cost distribution. Our goal in this analysis was to drive out clear, consistent cost breakdown numbers, as well as cost-per-contact numbers that represent best practices and show the impact of key changes.



TO DOWNLOAD

Table 1. Variables and Center Sizes

Variables/Center Size	Small	Medium	Large
Staffing	50	200	350
Number of centers	1	3	6
Annual growth	2.5%	5%	7.5%
FTEs per office	1	1.25	1.5
Media	Calls	Calls/Email	Calls/Email
Media split	100%	95%/5%	80%/20%
Self-served % of total volume	10%	10%	10%
Hours of operation	8x5	10x5 & half-day Sat.	24x7

Table 2. Technologies by Center Size

Technology/Center Size	Small	Medium	Large
VoIP PBX	X	X	X
ACD	X	X	X
CTI		X	X
IVR	X	X	X
ASR IVR			X
PCs with 19-inch monitors	X	X	X
QM		X	X
WFM		X	X

Table 3. Sensitivity Models and Variables

Sensitivity Model	Altered Variables
High self-service	<ul style="list-style-type: none"> • 30% reduction in agent-handled volume (self-served volume increases from 10% to 40% of total contact volume)
Low cost labor	<ul style="list-style-type: none"> • 20% reduction in the cost of labor and facilities • 20% reduction in turnover • 20% reduction in hiring costs
Complex contacts	<ul style="list-style-type: none"> • 25% increase in handle times • 25% increase in labor rates • 50% increase in hiring costs • 100% increase in new employee training • 50% increase in ongoing training • 50% increase in management and supervision

CONTEXT FOR ANALYSIS

We built three models producing a three-year operating budget projection in each model. As we couldn't cover all variables (industry, geography, etc.), we tried to set the inputs to the variables at a "likely" level based on a variety of inputs — including surveys and benchmarking studies, as well as our experience with numerous contact centers. Then, we selected the variables with the highest likelihood and greatest potential to differ, and looked at the impact of changes in those variables.

Key Inputs for Models

There were two goals for the models: to be representative of a typical environment and therefore pertinent for all audiences, and to vary sufficiently to capture the impact of the key cost drivers in call centers. We first modeled a typical small, medium and large center to assess the cost differences based on size. We used several variables to define the size of the center. Table 1 shows the variables used to define a typical center in each category.

Additionally, we viewed technology as one of the key differences among centers of different sizes. Table 2 details the typical technology environment in centers based on size.

Within each technology category, we varied the features and therefore cost in each model based on the size of the center. The technology investments vary based on these functionality differences for each technology and each center size.

We also believe that technology should remain current with maintenance contracts and periodic upgrades. We therefore included depreciation, maintenance and up-

grade costs for each technology across the entire three-year projection period — a best practices approach for technology operations and investment. The same concept applies to many of the other inputs to the models. For example, while not every center includes fully loaded costs when thinking about their labor costs, we think it is important to include all costs when considering the operational costs of a center, and key changes or decisions. Thus, as a best practice, we included fully loaded labor costs.

Sensitivity Analysis

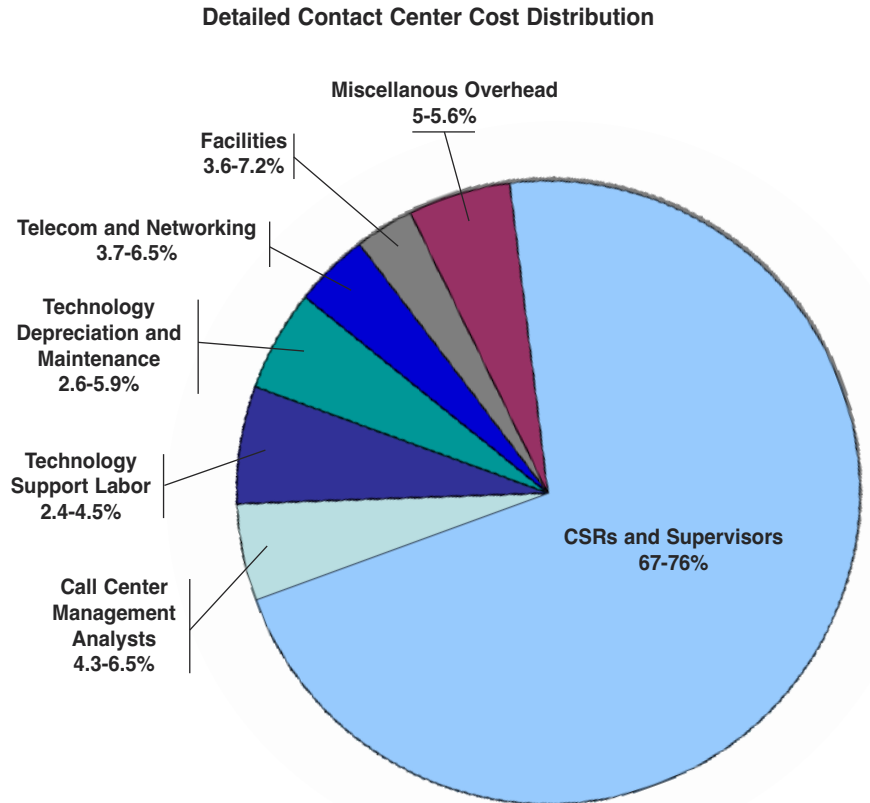
We also wanted to assess the sensitivity, within a center of a given size, to variables that drive the major cost differences among centers. We used a medium-size center and changed key variables to show how the cost structure and overall costs change for three options shown in Table 3.

RESULTS

Figure 1 summarizes the breakdown of costs in the contact center, considering the variations in size, self-service rate, labor and cost complexity we modeled. While big changes in these areas could sway the percentages, this chart provides a representative overall breakdown of costs considering today’s economy and “typical” configurations and operations.

What’s immediately evident is the large “slice of the pie” that the frontline call center labor consumes. The other slices collectively make up approximately a fourth to a third of the cost, with no one element standing out as a large slice. The management and analysts (fixed labor) in the center, and the facilities costs, incur slightly higher percentage costs than the other ele-

Figure 1. Contact Center Cost Distribution



ments. Collectively, the technology elements are 9 percent to 16 percent of the cost, including the support labor, telecommunications and networking.

Cost Distribution

Table 4 provides the specific cost distribution for varying center sizes and the sensitivity variations.

Cost per Contact

Table 5 shows the cost per contact in two different views. The fully loaded cost includes the total contact center costs (not just the costs typically part of the contact center budget). The labor budget costs include only those costs typically considered in this metric: all contact center labor. This table reveals the impact of including all costs and also how over-

all costs change based on center size and based on the “sensitivities” to our key variables: higher self-service, low cost area and complex issue support.

In Table 6, we break out the cost per contact into the components of that cost. This gives a good indication of how the overall budget and each budget element changes in each model. More importantly, this table shows how much the overall budget and the ultimate cost per contact can change with focus on cost reduction in any given area.

WHAT THE RESULTS TELL US

While we hope it’s valuable for people to consider the raw results of this analysis, we also want to take a step back and ask, “What do these results

Table 4: Cost Distribution for Various Size Centers and Sensitivity Variables

					Medium		
Cost Structure	Includes	Small	Medium	Large	Self-service	Low Cost	Complex
Variable labor	Loaded cost for CSRs and Supervisors	70.4%	72.5%	72.0%	66.8%	70.3%	76.3%
Fixed labor	Loaded cost for management and operational analysts	5.4%	4.4%	6.4%	6.5%	4.3%	5.0%
Tech support labor	Loaded cost for IT and Telecom support staff	4.5%	3.2%	2.7%	4.2%	3.2%	2.4%
Technology	IT depreciation and support	2.6%	4.4%	5.9%	5.6%	5.3%	3.3%
Telecom/ Networking	Voice network per minute, cell phones, and depreciation and support for voice and data network infrastructure across sites	4.6%	5.0%	3.9%	6.5%	6.1%	3.7%
Facilities	Rent, maintenance, utilities	7.2%	5.2%	3.8%	5.3%	5.2%	4.2%
Miscellaneous overhead	Travel, chargeback for other departmental services (e.g., HR, accounting), and per-person, budgeted miscellaneous expenses	5.3%	5.2%	5.3%	5.0%	5.6%	5.1%

Table 5. Cost per Contact

				Medium		
Cost per Contact	Small	Medium	Large	Self-service	Low Cost	Complex
Fully loaded cost per contact	\$6.55	\$4.33	\$3.47	\$3.04	\$3.57	\$6.88
Labor budget cost per contact	\$4.97	\$3.33	\$2.72	\$2.23	\$2.67	\$5.59

Table 6. Cost per Contact Components

				Medium		
Cost per Contact Component	Small	Medium	Large	Self-service	Low Cost	Complex
Variable labor	4.61	3.14	2.50	2.03	2.51	5.25
Fixed labor	0.36	0.19	0.22	0.20	0.15	0.34
Tech support labor	0.29	0.14	0.09	0.13	0.11	0.17
Technology	0.17	0.19	0.20	0.17	0.19	0.23
Telecom and networking	0.30	0.22	0.14	0.20	0.22	0.25
Facilities	0.47	0.23	0.13	0.16	0.19	0.29
Miscellaneous overhead	0.35	0.23	0.18	0.15	0.20	0.35
Fully loaded cost per contact	\$6.55	\$4.33	\$3.47	\$3.04	\$3.57	\$6.88

tell us in the context of the decisions contact centers and companies have to make every day about where to invest, the changes they are considering, and ways to improve their operations?" Combining the analysis results with what we see companies struggle with routinely, we make the following observations:

> Focusing on frontline labor productivity is in fact the right thing to do; it is 90 percent of the contact center labor budget, and two-thirds to three-fourths of the overall operating budget. The numbers are compelling. Finding ways to get more bang for your labor buck just makes sense.

> Technology costs, while they may seem large when faced with a vendor quote, are a relatively small slice of the pie (2.6 percent to 5.9 percent). Investing in technology to make the workforce more efficient can have a profound and lasting impact. As a relatively small part of the overall operating budget, technology can have a big impact on the expensive labor part. This result is not just from improving self-service, but optimizing contact handling times and other improvements that let you handle more contacts with the same number of people, or the same number of contacts with a reduced labor cost. And other savings (tied to the number of people required, and all their associated costs) can offset that technology investment.

> If possible, consider a long-term view, not just the short-term, tactical view. Too often, we see centers making short-term decisions to

meet a budget goal that compromise the desired long-term benefit. For example, analyst resources have a relatively low cost, and are often critical to getting the value out of the technology implemented. Centers that don't make (or cut) that investment for short-term needs miss out on the chance to have a significant impact on the large labor budget element of contact center frontline labor.

> Centers considering virtualization have a compelling cost opportunity if it takes you from several small or medium centers to one larger virtual center — a 20 percent to 50 percent reduction in cost per contact in our analysis. The cost per contact drops considerably as you gain the efficiencies larger centers offer, while doing more in terms of the services offered through technology and using shared services for technology and analyst functions. An enterprise view is critical.

> The range of the labor cost is not as varied as perhaps we previously thought; regardless, it is a big percent. But as you make changes, keep in mind this is a big ship that will take time to turn. Strategic decisions, changes and investments have to be given time to make their impact.

> Looking at an apples-to-apples comparison of costs across different scenarios, the allocation of costs does not vary tremendously. There is no one right way to allocate costs, but it is important to recognize the difference between total cost (reflected in our analysis) and limited costs such as nonloaded labor and

other corporate costs (technology, facilities, etc.) not being allocated to the center. While the call center may focus on its budget (generally labor), considering overall costs can lead to the best decisions for the corporation.

> When analyzing alternatives such as outsourcing or hosted solutions, companies should consider the total costs, as this analysis does. While a labor cost reduction can have an impact (as shown in our lower cost area model), that model showed the cost impact with all other things being equal. Consider the impact on other areas, such as fixed labor, telecommunications, technology, training and quality assurance when considering alternative sourcing options. That is the only way to look at the true impact on cost per contact.

> The percent breakdown shows where to target for improvements: Clearly, labor is the biggest target. However, evaluate cost per contact to look at how you can improve your overall budget. For instance, our examples of improving self-service and decreasing labor costs have a nearly direct impact on overall cost per contact.

As centers move forward with planning and decision-making to meet their corporate goals, it is important to consider the potential cost impact. Armed with more knowledge about the distribution of these costs and what contributes to overall cost per contact, we hope that centers can make the best decisions to optimize their operations. ●