STRATEGIC CONTACT

BUILDING CREDIBLE BUSINESS CASES FOR CONTACT CENTER PROJECTS:

HOW TO USE PROCESS-DRIVEN ANALYSIS TO PRODUCE ROI PROJECTIONS THAT GET PROJECTS FUNDED

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ABOUT THE AUTHOR

Brian Hinton is a Senior Consultant with Strategic Contact, an independent consulting firm that helps companies optimize the strategic value of their customer contact technology and operations. Strategic Contact helps companies develop and execute plans tied to business goals.

Brian Hinton has extensive experience as an executive manager in businesses ranging from start-ups to multi-million dollar companies. He has been involved in the design, development, application, and support of an activity-based planning and analysis tool for contact centers, providing customer training and support to centers using the planning and analysis tool, as well as completing consulting projects within contact centers focusing on process-driven analysis. Brian retired from the U.S. Navy as a Commander. He has consulted in the call-center industry for eight years, analyzing the business value of technology implementations and process changes. Brian has authored several key financial planning models used by Fortune 50 companies in the design of next generation 800 networks, in corporate business plans, and as sales tools.

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INTRODUCTION

One requirement for getting a contact center project approved is to deliver a credible business case with projections decision makers can trust. However, many centers face a credibility problem because they have failed in the past to project accurate outcomes with their business cases. Oftentimes, project costs far exceed expectations or the projected productivity gains from new applications are not fully realized. Decision makers have been burned too many times. They now require a more thorough approach to business cases and ROI projections to allay their skepticism.

Contact centers by nature are process focused. New initiatives typically alter the contact center processes in some way (e.g., reducing process volume, reducing process duration, or automating a process step). They aim to reduce labor expense or increase revenue while maintaining or improving the customer experience. A process-driven approach to analysis creates credible business cases that result in project funding. A process-driven business case will also define success metrics to monitor after the project is complete to ensure the projected ROI is achieved.

PROBLEMS WITH TYPICAL BUSINESS CASES

COST

Two key elements must be defined in order to build a business case: the cost and the benefit. Typically on the cost side, a contact center business case is built around a vendor bid. However, this is not sufficient to produce a credible business case. There are three characteristics of a typical vendor bid that make it incomplete:

1. The bid is usually a fixed price bid.
2. The bid represents a moment in time.
3. The bid does not include all costs.

The vendor usually provides a fixed bid for costs that are not necessarily fixed. Components of the total cost of a hardware/software solution in a contact center can vary based on sites, staff, servers, trunks, ports, or other variables. A vendor usually takes your center as it exists today and provides you with a price that "fixes" the variable components in your current state. You don't know how your costs will change as your center changes. To really understand the hardware/software portion of the cost of any project, it is important to know what "drives" the variable components of the vendor bid and how they would change as your center evolves.

Too often, the vendor bid is considered the total cost of an improvement project. However, this is only a portion of the cost. Depending on the complexity of the technology being implemented, the hardware/software costs from the vendor can be as low as 35% of the total cost. For most projects, there is a cost for implementing the new technology and integrating it with legacy systems. Most vendors require an annual maintenance expense for support and upgrades. Also, there is a cost for training on the new system. The internal agents need to be trained to use the new system and in some cases, the customers need to be trained or encouraged to use the system in some new way before any benefits can be realized.

The ongoing costs of administering a new application can be substantial but are often overlooked when developing a contact center business case. These costs can be from increasing staff in IT to support or manage the system, or in the contact center to routinely "use" the application.

When trying to determine the true costs of a contact center project, another problem arises when planners only use costs that are included in the contact center budget. If the center is not charged for the capital purchase, but instead only gets a chargeback "pushed" to their budget from IT for *administering* the new system, the costs included in building the business case will not be accurate. The costs all hit the budget somewhere -- whether it is in training, marketing, IT or elsewhere. If the contact center is to be strategic, planners must approach building a business case with a corporate mindset that includes *all* costs.

BENEFIT

The typical approach in determining the benefits of a contact center project is to *start* with reducing headcount. Since labor is the largest part of most contact center budgets, most -- if not all, contact center projects impact the labor budget. However, the problem is the approach that planners often use to quantify this labor reduction. Determining the staff reduction should be the end-point of the project benefit analysis, not the starting point.

To build a contact center business case, an analyst will create an ad hoc spreadsheet or use the "planning" component of the WFM system to determine the headcount reduction. However, they often only take a few variables into account, such as:

1. Current handle time is x.
2. Future handle time will be x-17 seconds.
3. Current staffing is y.
4. A reduction in handle time of 17 seconds enables a headcount reduction of z.

This type of analysis ignores key variables: How will handle time be reduced by 17 seconds? What happens in the process to enable this? What part of the contact changes? Does the change impact all contact types? And, perhaps the most important question - When will the 17 second reduction happen? What effort will we have to make before we start seeing the reduction?

PROCESS-DRIVEN BUSINESS CASES

Business cases for contact center projects require a process-driven approach to ensure credibility. Figure 1 shows that when building business cases in contact centers, as with all contact center planning and analysis, there must be a link from the most detailed cost/benefit quantification back to the overall business strategy. This ensures that any approved project in the contact center moves the business closer to achieving its strategic goals.

Figure 1: Relationships Crucial to Building Credible Business Cases

A process-driven business case:

- Considers how the organization is changing and what impact those changes will have on the contact center over time.
- Identifies what process change will occur and how it will reduce cost or increase revenue in a way that is consistent with overall operations strategy.
- Forces inclusion and quantification of all costs of a project including how those costs will change over time.
- Determines the benefit of a project by identifying specific variables that will change due to implementation.
- Enables traditional soft benefits, such as customer and employee satisfaction, to become hard benefits, and be quantified as increased revenue and improved employee attrition.
- Identifies success metrics to monitor after implementation to ensure the ROI projected in the business case is achieved.

STEPS TO BUILDING A PROCESS-DRIVEN BUSINESS CASE

LINK THE OPERATIONS GOAL TO THE BUSINESS STRATEGY

In this first step, you'll need to answer questions such as, "What's our goal? What pain are we trying to alleviate? What roadblocks to achieving business goals are we trying to tear down?" It could be that the planned revenue growth rate is aggressive and leadership expects more revenue to be driven through the contact center without a commiserate increase in the budget. You would need to increase support and maintain service and satisfaction levels without increasing staff. As a result, a key part of your revenue growth strategy could be for the contact center to begin producing revenue through cross-selling.

DEFINE THE TACTICAL PLAN TO ACHIEVE THE OPERATIONS GOAL

Once you can express your goal strategically, you have to define specifically how you intend to reach that goal. For instance, in order to support an increased number of customers without a budget increase, one option is to reduce contact volumes by increasing self service options. Your strategy could be to implement speech recognition on the IVR and encourage customers to use web tools (e.g., email, web chat, Knowledge Management) to aid self service. The total solution might be a combination of these changes, but all options are linked to the overall goal of doing more with less.

IMPLEMENTING PROCESS-DRIVEN ANALYSIS FOR CREDIBLE BUSINESS CASES

Process driven-analysis doesn't just happen. There needs to be a concerted effort to implement this approach. But how? There are three ways to get started with process-driven analysis:

1. **Build it yourself.** Following the steps described in this paper, an analyst could build a framework within which to work. This could be an Excel workbook that sets up many of the relationships and process steps specific to your business. Analysis can be accomplished more quickly since the structure is in place and can be used each time analysis is required to budget, project new work or build a business case. A larger application could also be built that links to sources of data and becomes the planning fabric of the organization.

2. **Buy a tool.** The problem with building it yourself is that it can take years to develop process-driven planning applications that ensure that logic, linkages and components respond to contact center planning needs. Buying may be much cheaper than building. Primary Matters, Inc. offers an Excel-based tool (The Guide™) used in process-driven planning and analysis. A tool such as this can be powerful when used for specific analysis and building business cases.

3. **Contract for services.** Alternatively, there are consulting companies, such as Strategic Contact, Inc., who are familiar with the process and the tools used. It is extremely cost-effective to contract with Strategic Contact to assist you in contact center analysis and building business cases using a proven process-driven approach. www.strategiccontact.com

To become a revenue-producing center, you might specifically decide to implement an outbound dialer integrated with your routing application so agents become blended, handling both inbound and outbound interactions. This would be an effective tactic in countering low occupancy for high service levels. Outbound, revenue-producing calls would be routed to agents waiting for inbound support calls.

MODEL THE CURRENT OPERATIONS

We can't credibly define the costs and benefits without a clear understanding of our current operations and how our current processes drive our need for resources - staff, technology, facilities and budget dollars. We have already discussed that a credible business case considers how the costs and benefits of a project change as our organization changes over time. In this next step, we will project our need for resources, assuming our internal processes do not change (no productivity projects) but including any strategic changes already built into the business plan.

Figure 2 describes the analysis steps required to model your current operations in order to project required resources. This process-driven approach to analysis is not just a step in creating a business case, but a necessary approach to all contact center analysis. Modeling your current operations creates a baseline which reveals what is driving your current need for resources and where those resources are being used. It becomes the platform upon which all other analysis is built. Credible business cases with supportable ROI projections depend on accurate projections of resource requirements for the "status quo"- prior to any productivity projects being implemented.

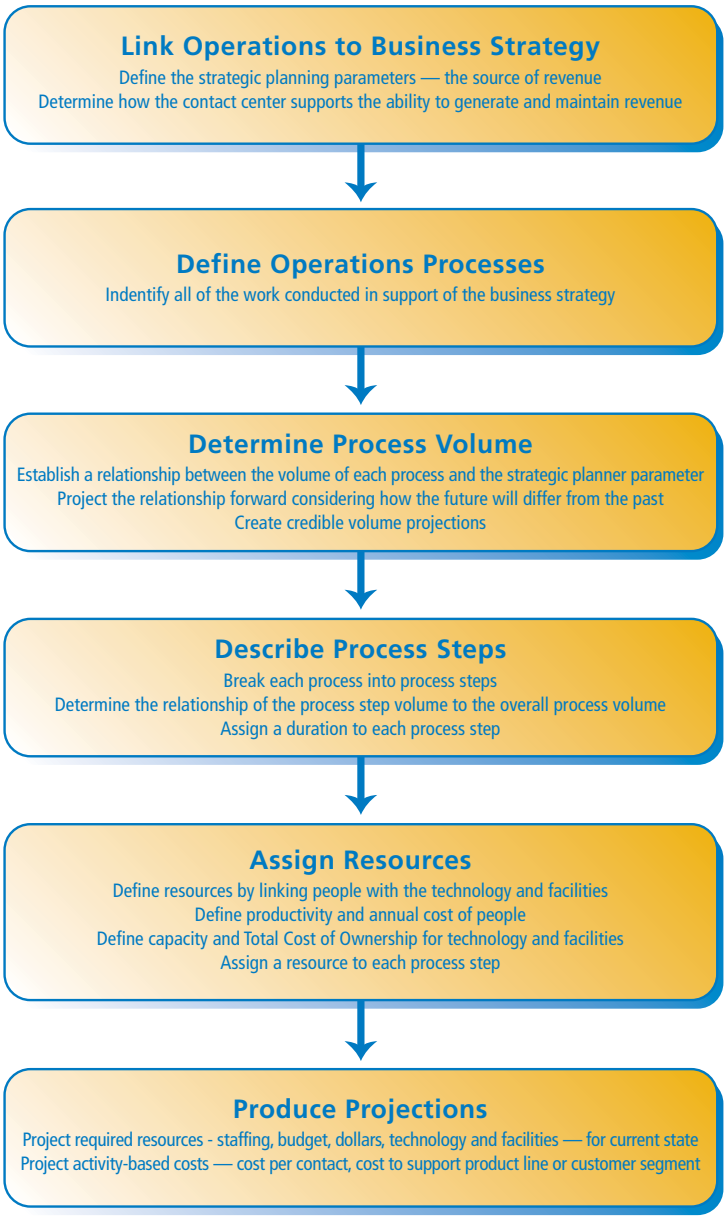

Figure 2: Process-driven Planning and Analysis for Modeling Current Operations

QUANTIFY THE INVESTMENT

Now that the foundation for building our business case is in place, we can move on to the two primary elements of the financial ROI analysis - the cost and the benefit. To quantify the investment in the business case, we alter the baseline we built in the previous step with the investment required to implement the new project. Logically, this step creates an increase in the required budget. Remember, in process-driven analysis, the investment is not just a dollar figure -- we must approach the investment from a total cost of ownership (TCO) perspective. There are three aspects to a credible TCO calculation in a process-driven business case:

1. Cost components and drivers
2. Internal and external costs
3. Ongoing costs

These three cost categories are not mutually exclusive. Instead of viewing them as separate costs, think of them as three different perspectives to use in quantifying the total costs.

Projects need to be broken down into the components that make up the total cost. Then, to really understand how the investment changes as your organization changes, we must define what drives the cost of each component. For instance, when implementing a converged voice and data network, there are costs associated with hubs, sites and agents. As the number of hubs (could be one, or a second for disaster recovery), sites (centers or satellite offices), and agents (growth, self-service, new work, or productivity technology) changes, the costs "driven" by them also change. With a planning horizon of three to five years, we can expect changes in cost drivers to increase or decrease the projected investment. Breaking the costs down into components, as well as the drivers for those components, also enables phasing the outflow of cash as you phase-in the project. For instance, you may decide to implement a converged network to agent desktops six months after implementation of initial VoIP infrastructure between sites. This phasing impacts the timing of the investment, and more importantly, the timing of the quantified financial impact of the benefit.

As we identify the cost components and what drives each cost, we have to be sure that we are including *all* cost components. The vendor bid starts the process by identifying some of the external costs. However, if the vendor is not providing the implementation and integration services, the bid may not include those costs. It is likely that a vendor will provide implementation services but you must ensure that this cost is included in the bid. Integrating with any legacy system and testing of the complete system is less likely to be included or provided by the vendor without specific discussion. If you need the services of a third party, you will need to include the expense of another procurement process and the cost of that particular service.

The internal IT department might provide some of the services we are discussing. In fact, if you are implementing a home-built solution, your internal IT department might provide everything (software, hardware, implementation, integration, testing, etc.). These services might be considered "free" which can grossly understate the total investment. Services that are provided internally, regardless of whether it's part-time project management, training on the new application, or coding the solution, must be evaluated for appropriate quantification in the investment calculation.

Whatever the cost component, internal or external, some costs hit the budget upfront and some can be delayed, impacting the budget a year or more later. The most obvious but often overlooked future cost of a new technology is the ongoing annual maintenance fee. This can be substantial (starting at 18% of the non-discounted license fees) and is paid annually over the life of the solution. When quantifying the investment over a three to five year planning horizon, maintenance and other ongoing costs must be included. It is the only way to create a credible TCO upon which to calculate the return. Please note: ongoing costs can be indirect (e.g., a phased-in training on the new application, the cost of educating the client base on a new self-service application), or direct (e.g., new licenses to support staff increases due to corporate growth, new work, or phased-in additional application modules).

One major component of ongoing costs is the operations, administration and maintenance (OA&M) of the application itself. This is in addition to the annual maintenance fee paid to the vendor. The internal OA&M expense refers to the IT staff who maintains the system and the contact center staff who administers or operates the system. A complex application solution can require staff to be added in IT and the center to gain the full functionality. This additional, ongoing labor expense must be included as part of the investment for an accurate ROI calculation.

A credible business case is dependent upon accurately quantifying the total, internal and external, and ongoing investment required for whatever solution is being considered. A process-driven approach to building business cases provides a credible investment calculation where all costs are calculated using ongoing projections of the cost drivers. The cost-driver projections are based on a relationship to the overall business strategy and center operations.

QUANTIFY THE BENEFIT

The second half of the ROI calculation requires us to quantify the benefit. It is the most difficult step in building a credible business case. We saw before how a credible calculation of the investment came from ensuring all costs were included, and how it could be readily supported with facts and figures. On the other hand, calculating the benefit is "telling the future" or defining assumptions, and is therefore much less exact and open to challenges, interpretation, estimates and "guesses." By using process-driven analysis to build the business case, we produce a quantified benefit that is supportable and allows granular sensitivity analysis to test how varying the calculations (and assumptions) impacts the projected ROI.

To quantify the benefit, we need to alter the baseline we've built with the impact of the projected benefit gained from the new project. When we calculated the investment, we increased the required budget. Now in this step, by quantifying the benefit of the project, we hope to decrease the required budget (even including the investment) and thus achieve a positive ROI.

When we modeled our current operations in a previous step, our baseline defined our current processes, process volumes, process steps and resources. Simply stated, calculating the benefit involves altering assumptions that were made about the processes when we built the baseline. However, this is not as simple as it sounds. The following is a partial list of assumptions or variables that can be changed as a result of an improvement project.

- Improve personnel productivity
- Reduce personnel annual cost
- Decrease process volume
- Shift process volume to an alternate (ideally lower cost) resource
- Eliminate or automate processes
- Eliminate, automate, or combine process steps
- Decrease process step volume
- Reduce process step duration

To further complicate the calculation, we aren't just looking at the benefits that are realized the day after the project is complete. We are trying to quantify changes to the processes within our organization that will happen over time, and are therefore phasing-in the benefit.

To build our baseline, we projected our assumptions through our planning period. As an example, we projected that we will receive 10,000 contacts a month in the first month of our planning period. Plus, the contacts we receive will grow at a rate of 15% annually. If nothing else changes, we must increase our staff by approximately 15% annually to achieve the same service levels as today. We are upgrading our IVR to enable self-service. We estimate that in the eight months following completion of the IVR upgrade we will reduce our handled volume by 10% through self-service. We must phase the handled volume reduction into the baseline to produce a quantified benefit. As the incoming volume grows 15% annually, the handled volume does not grow at the same rate because each month a larger percentage is self-served. This produces a required staff projection that is lower than the baseline staff projection which included the planned annual staff increase. This change in volume assumption produces a labor budget that is lower than that originally projected in the baseline budget.

In process-driven analysis, several variables can work together to produce the required result. In building a business case, implementing a quality monitoring system might enable targeted training that reduces handle time, increases customer satisfaction (and therefore customer retention and ongoing revenue), increases agent satisfaction (and therefore reduce agent attrition), and finally increases sales conversion rate and revenue per call. All of these changes to the baseline assumptions can be phased-in at the same time and work together to quantify the benefit of implementing a quality monitoring system.

Another value of an integrated, process-driven approach to building a business case is the linking of the cost components to the cost drivers. The investment calculation changes along with the benefit. For instance, if there are cost components that are driven by the number of staff (such as a per-person license), and one of the benefits of the solution is a staff reduction, then the final calculation will reduce the required investment (for licenses) as the number of staff decreases.

By determining how processes will change with your new initiative, you can specifically define the source of the benefit and add credibility to the result.

CREATE SUCCESS METRICS

Success metrics in a process-driven business case are simple but powerful. Any variable or assumption that was changed to quantify the benefit of the project now becomes a metric to monitor once the project is completed.

By way of example, if a process volume was projected to decrease by 25% due to implementing self-service, then we would regularly monitor the process volume to assess progress toward the 25% goal. To quantify the impact of the 25% volume reduction, we would phase-in the reduction over time. We project that each month the handled volume will be reduced by x%, increasing over time to a total reduction of 25%. The metric to monitor is the handled volume. The success goal is the actual phased-in improvement projected each month. If we don't realize the improvement, we know that the projected ROI is not being achieved and analysis can be done to find out why.

Success metrics created in a process-driven business case do not assure success but they do ensure that you can present very credible reports stating success or progress toward success, and take action to mitigate a lack of progress. You can be sure that this approach to post-project success analysis will remove any skepticism caused by past failures to achieve projected ROI. The credibility of future process-driven business cases will be assumed.

Figure 3 describes the process-driven approach to building a business case. The steps can be revisited based on new learning as you move through the analysis.

Figure 3: Building Process-driven Business Cases

A SIMPLE PROCESS-DRIVEN BUSINESS CASE EXAMPLE

Figure 4 on the next page reveals the results of an ROI analysis that was part of a business case developed to support the implementation of a knowledge management solution in a technical product support organization. The process-driven baseline was built and included the following processes:

- Inside sales
- Field sales
- Product implementation
- Technical support to implementation
- Incoming product support calls
- Escalations to Level 2 product support
- Escalations to Level 3+ for complex technical issues coming from sales, implementation teams or customers

All aspects of the cost were included in the investment calculation:

- Hardware
- Software (Server and Desktop licenses)
- Ongoing maintenance
- Additional IT and Operations Staff for OA&M
- Training (Agents and Customers to use the new application)
- Marketing to advertise the availability
- Internal and external integration and implementation services
- Building the knowledge base

The benefits were built into the baseline at the process step level:

- A phased-in reduction in implementation team contact volume
- A phased-in reduction in the overall support call volume due to first-call resolution
- A phased-in reduction in Level 2 and 3 escalations
- A phased-in reduction in the average research time associated with Level 1, 2 and 3 contacts

All of the benefits were phased-in over an extended period of time, with some still being phased in a year after implementation. Costs such as ongoing maintenance and the labor expense for the additional staff needed in IT and the center were still being included. The benefits were defined with specific reduction percentages that would also be used for success metrics after implementation. With these kinds of metrics being tracked, management can be very specific about its progress toward achieving projected ROI.

Return on Investment (ROI)

Headcount Comparison

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4
Baseline Variable Employees	595	614	634	656	686	712	738	772	814	846	879	
Scenario Variable Employees	595	616	583	525	549	570	591	617	651	677	703	
Personnel Reduction	0	(2)	51	131	137	142	148	154	163	169	176	

Investment and Expenses - Total Cost of Ownership (TCO)

Total	$ 50,000	########	$ 471,283	$ 441,645	$ 467,062	$ 484,598	$ 504,061	$ 537,488	$ 768,733	$ 630,187	$ 655,870	$ 6

Summary Financial Results in $000's

Baseline Budget	$ 16,682	$ 17,155	$ 17,866	$ 18,634	$ 19,889	$ 20,524	$ 21,448	$ 22,691	$ 24,123	$ 25,092	$ 26,234	$
Scenario Budget	$ 16,694	$ 19,938	$ 16,514	$ 15,377	$ 16,341	$ 16,983	$ 17,749	$ 18,733	$ 20,319	$ 20,992	$ 21,813	$
Savings	($12)	($2,783)	$1,352	$3,257	$3,548	$3,541	$3,700	$3,958	$3,803	$4,100	$4,420	$4
Cumulative Savings	($12)	($2,795)	($1,443)	$1,815	$5,363	$8,904	$12,603	$16,562	$20,365	$24,465	$28,885	$3

Annual Cash Budget Comparison

	Year 1	Year 2	Year 3
Baseline	$70,336,967	$84,553,093	$102,845,097
Knowledge Management	$68,522,080	$69,806,476	$85,870,139
Annual Cashflow Savings due to Initiative	$1,814,887	$14,746,618	$16,974,958
Investment/TCO	$3,543,342	$1,993,209	$2,738,983
Cumulative Return on Investment/TCO for Knowledge Management Scenario	51%	299%	405%

Discount Rate 15.00% | PV of Investment/TCO $6,134,012 | NPV of Cashflow $22,621,831 | ROI 369%

Figure 4: ROI Report produced using The Guide™ an activity-based planning and analysis tool

Figure 4 also includes a summary of the results of this analysis and includes the key elements of a credible ROI calculation. From top to bottom:

1. A comparison of the required staff with, as well as without the knowledge management application, over a three-year projection window. Notice the required staff initially increases due to hiring the OA&M staff prior to any benefits being realized. While required staff does increase, the increase is much less with the knowledge management system than without.
2. A quantification of the investment showing the specific timing over the three-year projection period.
3 A comparison of the total center budget with and without the knowledge management application. The "with" view includes the investment and the benefit of implementing the application. The revealed savings and cumulative savings are net of the investment - or the return on the investment.
4. A summary by year of the "real dollars" cash flow, net cash savings, and ROI.
5. An overall, three-year summary of the present value of the investment, the NPV of the cash flow savings, and a fully-discounted ROI.

CONCLUSION

Using a process-driven approach to build a business case and ROI for a project provides credible investment and benefit calculations that upper management trusts. It often results in the project getting funded. This is due not only to the credibility of the numbers, but also to the initial project planning and the baseline that the case was formed upon, which are intrinsically linked to the overall business strategy.

As with any decision, the business case is not just about the numbers. Other soft, non-quantifiable benefits should be considered before making a final decision. However, one of the values of a process-driven approach is that more of the

"soft" benefits are quantified and become "hard" dollar savings - further enhancing the credibility of the results. Being able to build credible, process-driven business cases with defendable ROI calculations is predicated on using a process-driven approach in your overall planning and analysis environment. Credible results shorten analysis time as decisions can be made more quickly. Process-driven analysis ensures that the contact center becomes or remains a strategic tool in reaching corporate goals.

APPENDIX - ACRONYM LIST

CRM:	Customer Relationship Management
IT:	Information Technology
IVR:	Interactive Voice Response
NPV:	Net Present Value
OA&M:	Operations, Administration and Maintenance
ROI:	Return on Investment
TCO:	Total Cost of Ownership
WFM:	Workforce Management

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