

Premise vs. Hosted Contact Center: Total Cost of Ownership Analysis



A Frost & Sullivan White Paper

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INTRODUCTION

The majority of North American contact centers today are supported by premise-based contact center and telephony systems. Key benefits of the premise model include: a mature and proven deployment model; complete control over the systems and applications (functionality, data integrity/privacy, security, reliability); connection with other business systems and applications; as well as the financial advantages ownership affords. Typically, these systems and applications are acquired through the outright purchase of the hardware and licenses for the software and applications. While many financial arrangements can be made for these purchases, including leasing, most enterprises account for these transactions as capital equipment expenses.

The leading alternative to premise-based systems and applications is hosted services. These services are owned and operated by third-party service providers who provision the desired contact center systems and applications functionality for the enterprise customer. The advantages of this model include: rapid start up, little or no capital expenses required, flexibility to add or remove functionality on an agent-by-agent basis, flexibility to increase or decrease the number of agents supported, access to the latest technologies, and fewer staff required to support the systems. Typically, these services are priced on the basis of monthly fees per agent supported and vary based on the number of agents and the functionality delivered. Enterprises usually account for hosted contact center fees as operating expenses.

As input to enterprises' contact center acquisition and deployment decisions, Frost & Sullivan has created a total cost of ownership (TCO) model for comparing premise-based and hosted contact center solutions. Total cost of ownership is a valuable way to compare contact center acquisition/deployment alternatives. However, it should be viewed as one element in a comprehensive decision process.

This whitepaper presents the results of the TCO analysis for twelve (12) contact center configurations. The configurations varied by the size of the contact center organization in terms of the number of agents, and by the level of contact center application functionality supported. The sizes of contact centers compared were:

- 50 seats
- 100 seats
- 250 seats
- 500 seats

The levels of contact center application functionality compared were:

- ACD only
- ACD+: defined as ACD, IVR, chat, and outbound dialer
- Full-function: defined as ACD, IVR, chat, outbound dialer, quality monitoring, workforce management, customer feedback, agent hiring, and eLearning

TCO analysis was conducted for all of these configurations for hosted and premise deployments.

TOTAL COST OF OWNERSHIP ANALYSIS

Background

A total cost of ownership analysis (TCO analysis) is a business case designed to find the lifetime costs of acquiring, operating, and maintaining something. In this TCO analysis, Frost & Sullivan has designed TCO models to compare the costs of acquiring, operating, and maintaining similarly configured contact centers over their useful lifetime. The primary point of comparison is premise-based contact center systems/applications versus hosted contact center services.

The contact center configurations compared have two dimensions: size and contact center application functionality. On the size dimension, four configurations were compared: Premise systems and hosted services that support 50, 100, 250, or 500 concurrently logged contact center agents. On the application functionality dimension, three sets of functionality were compared: ACD-only (ACD, reporting); ACD+ (ACD, reporting, IVR, chat, outbound dialer); and Full-function (ACD, reporting, IVR, chat, outbound dialer, quality monitoring, workforce management, customer feedback, agent hiring, eLearning).

Deployments were assumed to be a mix of single-site and multi-site. Networking costs were assumed to be roughly comparable for premise and hosted. Staffing costs for contact center agents are not included in the model, as they are assumed to be the same for premise and hosted configurations. Contact center application functionality was assumed to be roughly comparable for premise and hosted, by configuration. Premise system upgrade costs are included in maintenance fees; no significant capital expenses would be required after the initial installation during the comparison timeframes of three and five years.

Systems and Applications

Systems include all hardware and operating system software components required for each configuration. Consideration was given to the incremental systems required to support larger agent populations and additional functionality. Additional servers and redundant processors are needed to deliver the performance and reliability required of larger and more feature-rich systems.

Applications includes all contact center application software for automatic call distribution, interactive voice response, outbound dialer, chat, workforce management, and reporting.

Implementation

Implementation costs include system installation, configuration, and routine integrations. Implementation costs are modeled as a percentage of the initial systems' costs, with percentages increasing with system size and functionality to reflect the additional effort required for these implementations. Additional effort areas include: configuration of more sophisticated contact routing schemas, development of customized reports, building additional application integration points, and configuring additional applications.

Customer staffing costs are included in the model for the initial implementation/start up. For premise configurations, the bulk of the implementation work is done by the system vendor's professional services group or those of a partner. And, for hosted configurations, the bulk of the implementation work is done by the hosted service provider. But, in all cases, a customer representative must be involved in the projects. For premise configurations of all sizes, these functions are typically performed by IT-skilled individuals, which the model reflects at a fully-loaded rate of \$120,000/year. For smaller hosted configurations, such as to support less than 100 agents, customer liaison efforts are typically performed by contact center managers or supervisors. For larger hosted configurations, such as to support more than 100 agents, customer liaison efforts are typically performed by an IT-skilled individual. The model reflects the fully-loaded costs for a contact center manager at \$80,000/year.

Maintenance and Upgrades

For hosted configurations, upgrades and maintenance fees are included in the monthly fees. For premise configurations, the first year's upgrade and maintenance fees are included in the original sales price. And, for the following years, the fees reflected in the model are 18 percent of the original purchase price per year. Typical fees for premise systems' upgrades and maintenance are between 15 percent and 20 percent per year.

Customer staffing costs are included in the model for ongoing maintenance and upgrades. For premise configurations, the full costs of system monitoring, tuning, and administration are included. In addition, for premise configurations of all sizes, these functions are typically performed by an IT-skilled individual, which the model reflects at a fully-loaded rate of \$120,000/year. For smaller hosted configurations, such as to support less than 100 agents, customer liaison efforts are typically performed by contact center managers. For larger hosted configurations, such as to support more than 100 agents, customer liaison efforts are typically performed by an IT-skilled individual. The model reflects the fully-loaded costs for a contact center manager at \$80,000/year.

Subscription Costs

Subscription costs are the fees hosted service providers charge to use their contact center systems and applications. They are reflected in the model as per agent per month fees and vary by the level of functionality supported. In addition to the use of systems and applications, these fees cover system monitoring, maintenance, and upgrades.

Total Costs

Total costs are the sum of the costs incurred for the configuration for the year. Total costs include: systems and applications, implementation (year one only), maintenance and upgrades (year two and beyond), and subscription costs.

N-Year TCO

N-year TCO is the total cost of ownership calculated to the end of the Nth year. In other words, N-year TCO is the cumulative costs incurred to that point for the given contact center configuration.

N-Year % Cost Savings

N-year % cost savings is the fractional difference between the N-year TCO of the comparable premise and hosted configurations. It represents the cost savings realized by the hosted model, over the corresponding premise deployment.

CONCLUSIONS

Hosted contact center services delivered significantly lower TCO than comparable premise-based systems for all configurations analyzed for both the three-year and five-year timeframes.

Additionally, the TCO analysis demonstrates that:

1. Cost savings with the hosted model increases with the size of the contact center organization, for all configurations analyzed
2. Cost savings with the hosted model increases as more contact center applications are delivered as a hosted service

The following Table highlights the 3-Year and 5-Year TCO savings achieved with the hosted model, over comparable premise systems for various contact center configurations.

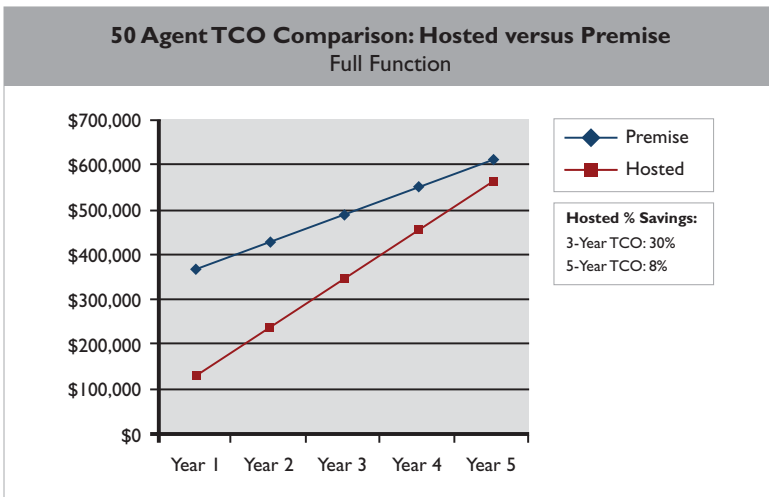
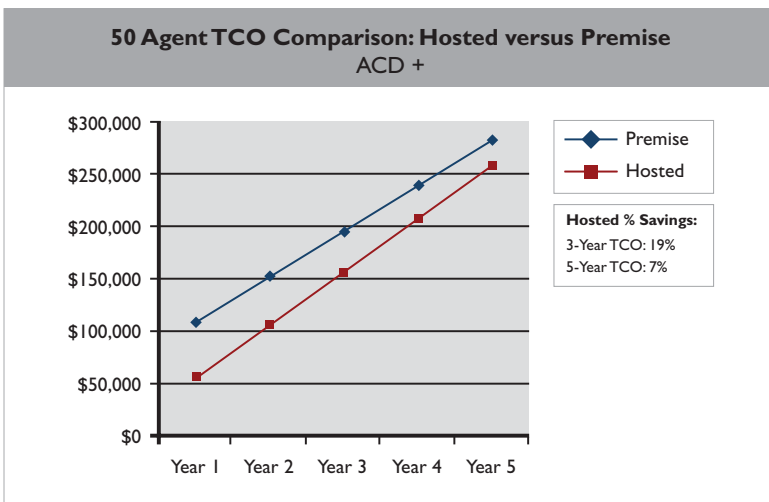
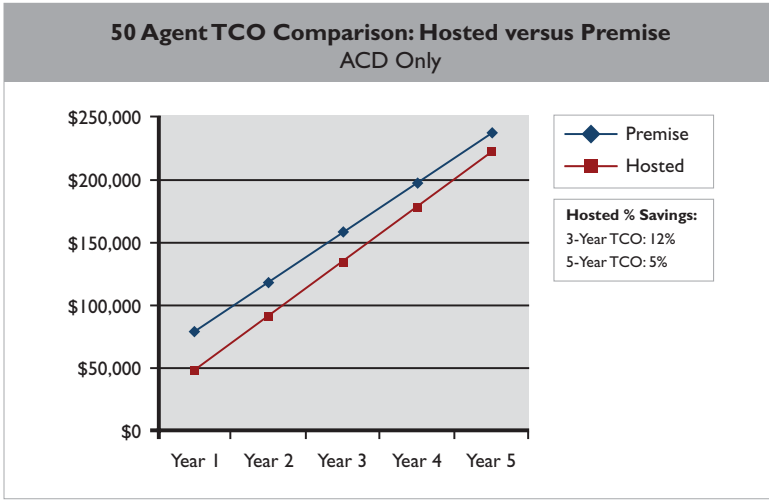
3-Year TCO Hosted Cost Savings % over corresponding Premise deployment				
Configurations	Seats			
	50	100	250	500
ACD	12%	18%	24%	35%
ACD+	19%	33%	43%	53%
Full Function	30%	42%	51%	58%

5-Year TCO Hosted Cost Savings % over corresponding Premise deployment				
Configurations	Seats			
	50	100	250	500
ACD	5%	9%	10%	19%
ACD+	7%	21%	28%	39%
Full Function	8%	23%	34%	43%

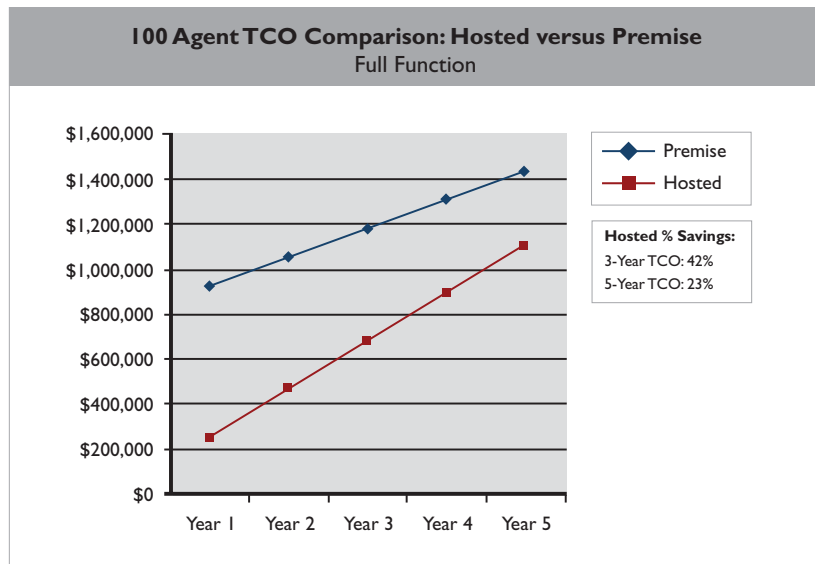
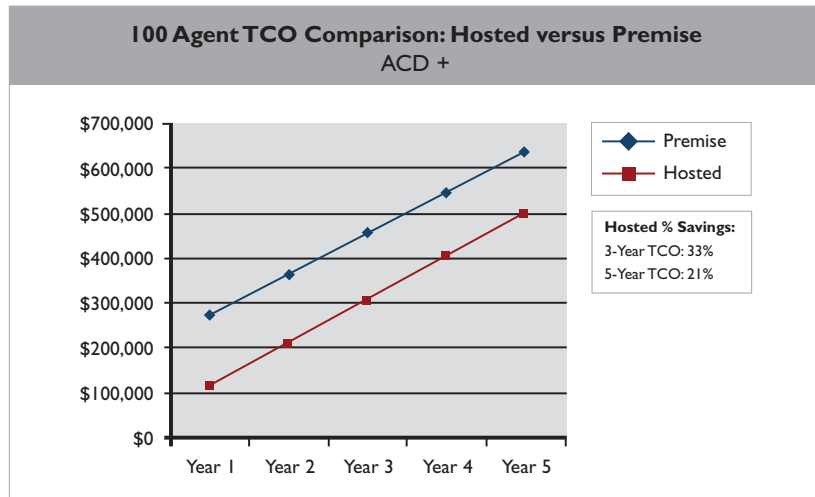
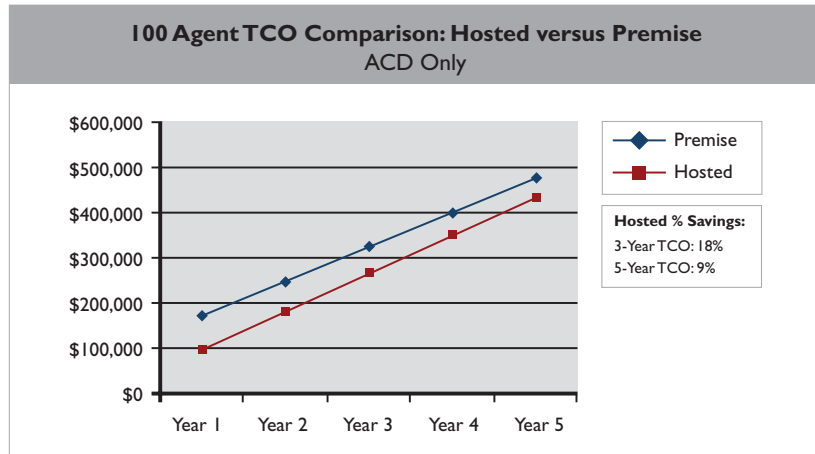
The findings essentially imply that as the size of your contact center organization grows, you only have greater cost savings to realize with the hosted model. At the same time, moving more contact center applications into the cloud helps your organization achieve greater cost savings.

APPENDIX I—TCO ANALYSIS CHARTS

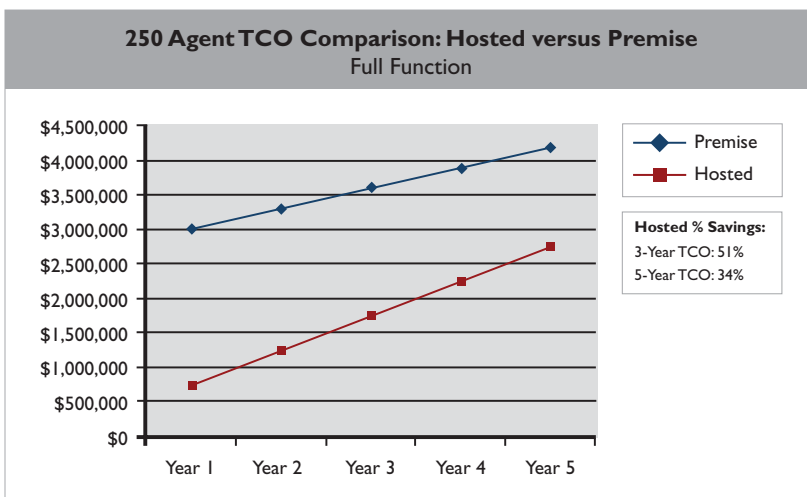
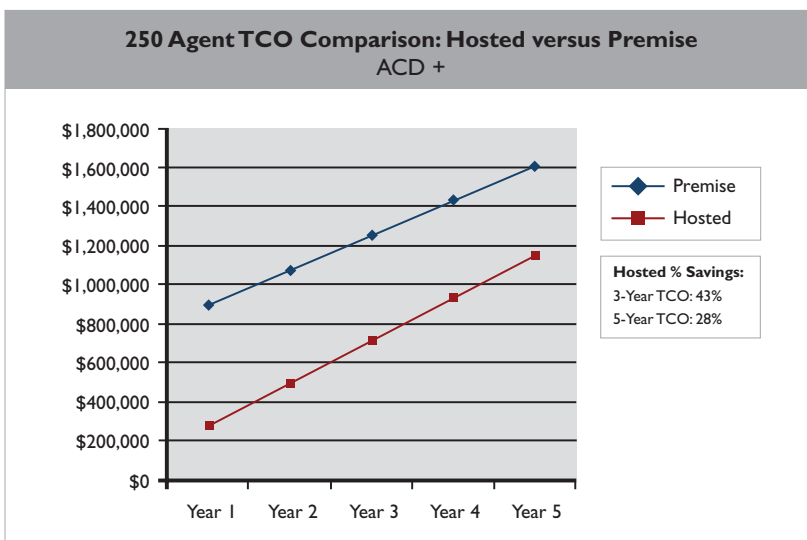
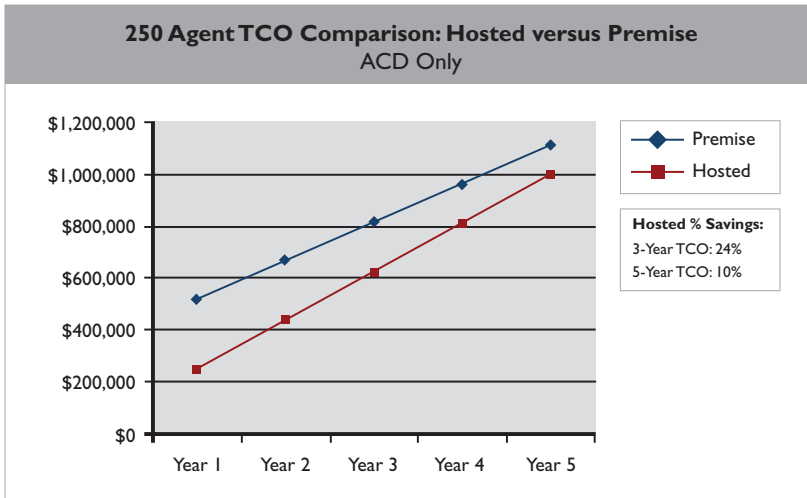
50-Seat Configurations



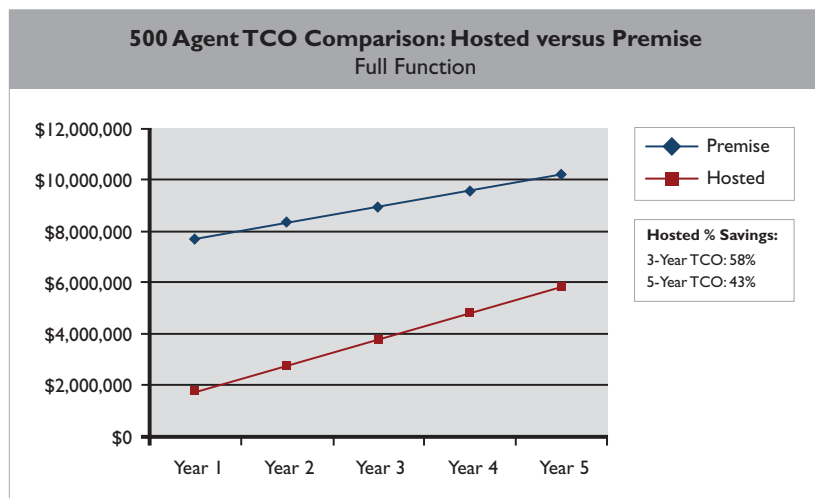
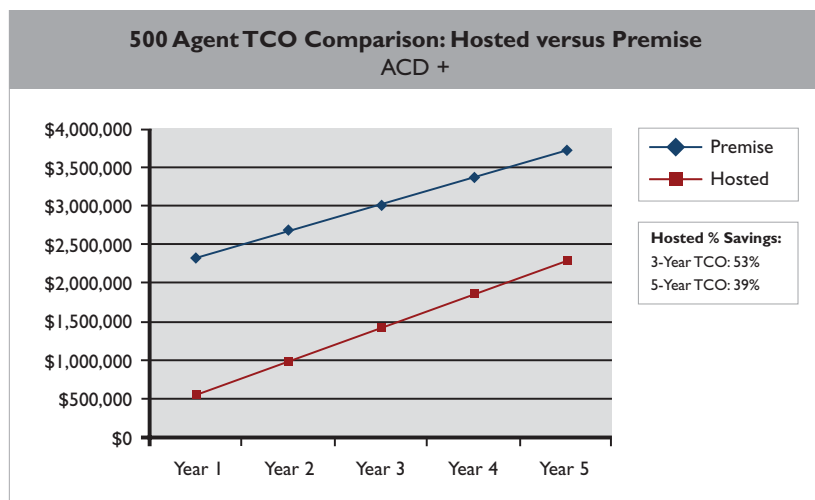
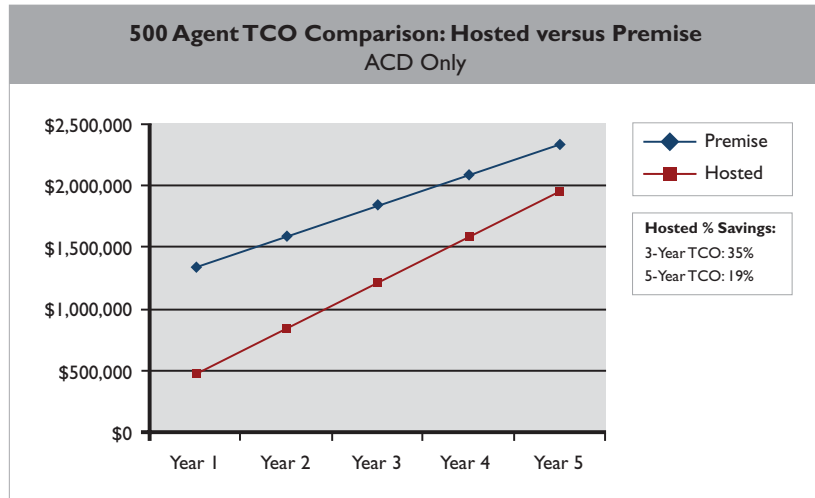
100-Seat Configurations



250-Seat Configurations



500-Seat Configurations



APPENDIX II—TCO ANALYSIS TABLES

50-Seat Configurations

	Contact Center TCO 50 Agents, ACD Only									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$32,500									
Implementation	\$43,000	\$15,000								
Maintenance and Upgrades			\$40,850	\$12,000	\$40,850	\$12,000	\$40,850	\$12,000	\$40,850	\$12,000
Subscription Costs		\$33,000		\$33,000		\$33,000		\$33,000		\$33,000
Total Cost	\$75,500	\$48,000	\$40,850	\$45,000	\$40,850	\$45,000	\$40,850	\$45,000	\$40,850	\$45,000
N-year TCO					\$157,200	\$138,000			\$238,900	\$228,000
N-year % costs savings		36%				12%				5%

	Contact Center TCO 50 Agents, ACD +									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$46,500									
Implementation	\$60,750	\$16,875								
Maintenance and Upgrades			\$43,370	\$12,000	\$43,370	\$12,000	\$43,370	\$12,000	\$43,370	\$12,000
Subscription Costs		\$39,000		\$39,000		\$39,000		\$39,000		\$39,000
Total Cost	\$107,250	\$55,875	\$43,370	\$51,000	\$43,370	\$51,000	\$43,370	\$51,000	\$43,370	\$51,000
N-year TCO					\$193,990	\$157,875			\$280,730	\$259,875
N-year % costs savings		48%				19%				7%

	Contact Center TCO 50 Agents, Full Function									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$146,500									
Implementation	\$220,800	\$33,400								
Maintenance and Upgrades			\$61,370	\$12,000	\$61,370	\$12,000	\$61,370	\$12,000	\$61,370	\$12,000
Subscription Costs		\$96,000		\$96,000		\$96,000		\$96,000		\$96,000
Total Cost	\$367,300	\$129,400	\$61,370	\$108,000	\$61,370	\$108,000	\$61,370	\$108,000	\$61,370	\$108,000
N-year TCO					\$490,040	\$345,400			\$612,780	\$561,400
N-year % costs savings		65%				30%				8%

100-Seat Configurations

	Contact Center TCO 100 Agents, ACD Only									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$86,250									
Implementation	\$88,125	\$32,500								
Maintenance and Upgrades			\$75,525	\$18,000	\$75,525	\$18,000	\$75,525	\$18,000	\$75,525	\$18,000
Subscription Costs		\$66,000		\$66,000		\$66,000		\$66,000		\$66,000
Total Cost	\$174,375	\$98,500	\$75,525	\$84,000	\$75,525	\$84,000	\$75,525	\$84,000	\$75,525	\$84,000
N-year TCO					\$325,425	\$266,500			\$476,475	\$434,500
N-year % costs savings		44%				18%				9%

	Contact Center TCO 100 Agents, ACD +									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$141,500									
Implementation	\$144,688	\$36,563								
Maintenance and Upgrades			\$85,470	\$18,000	\$85,470	\$18,000	\$85,470	\$18,000	\$85,470	\$18,000
Subscription Costs		\$78,000		\$78,000		\$78,000		\$78,000		\$78,000
Total Cost	\$286,188	\$114,563	\$85,470	\$96,000	\$85,470	\$96,000	\$85,470	\$96,000	\$85,470	\$96,000
N-year TCO					\$457,128	\$306,563			\$628,068	\$498,563
N-year % costs savings		60%				33%				21%

	Contact Center TCO 100 Agents, Full Function									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$366,250									
Implementation	\$561,938	\$77,250								
Maintenance and Upgrades			\$125,925	\$18,000	\$125,925	\$18,000	\$125,925	\$18,000	\$125,925	\$18,000
Subscription Costs		\$192,000		\$192,000		\$192,000		\$192,000		\$192,000
Total Cost	\$928,188	\$269,250	\$125,925	\$210,000	\$125,925	\$210,000	\$125,925	\$210,000	\$125,925	\$210,000
N-year TCO					\$1,180,038	\$689,250			\$1,431,888	\$1,109,250
N-year % costs savings		71%				42%				23%

250-Seat Configurations

	Contact Center TCO 250 Agents, ACD Only									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$268,750									
Implementation	\$248,125	\$76,667								
Maintenance and Upgrades			\$148,375	\$24,000	\$148,375	\$24,000	\$148,375	\$24,000	\$148,375	\$24,000
Subscription Costs		\$165,000		\$165,000		\$165,000		\$165,000		\$165,000
Total Cost	\$516,875	\$241,667	\$148,375	\$189,000	\$148,375	\$189,000	\$148,375	\$189,000	\$148,375	\$189,000
N-year TCO					\$813,625	\$619,667			\$1,110,375	\$997,667
N-year % costs savings		53%				24%				10%

	Contact Center TCO 250 Agents, ACD +									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$437,500									
Implementation	\$457,813	\$86,250								
Maintenance and Upgrades			\$178,750	\$24,000	\$178,750	\$24,000	\$178,750	\$24,000	\$178,750	\$24,000
Subscription Costs		\$195,000		\$195,000		\$195,000		\$195,000		\$195,000
Total Cost	\$895,313	\$281,250	\$178,750	\$219,000	\$178,750	\$219,000	\$178,750	\$219,000	\$178,750	\$219,000
N-year TCO					\$1,252,813	\$719,250			\$1,610,313	\$1,157,250
N-year % costs savings		69%				43%				28%

	Contact Center TCO 250 Agents, Full Function									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$1,098,875									
Implementation	\$1,903,144	\$260,665								
Maintenance and Upgrades			\$297,798	\$24,000	\$297,798	\$24,000	\$297,798	\$24,000	\$297,798	\$24,000
Subscription Costs		\$480,000		\$480,000		\$480,000		\$480,000		\$480,000
Total Cost	\$3,002,019	\$740,665	\$297,798	\$504,000	\$297,798	\$504,000	\$297,798	\$504,000	\$297,798	\$504,000
N-year TCO					\$3,597,614	\$1,748,665			\$4,193,209	\$2,756,665
N-year % costs savings		75%				51%				34%

500-Seat Configurations

	Contact Center TCO 500 Agents, ACD Only									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$643,750									
Implementation	\$699,375	\$150,000								
Maintenance and Upgrades			\$265,875	\$40,000	\$265,875	\$40,000	\$265,875	\$40,000	\$265,875	\$40,000
Subscription Costs		\$330,000		\$330,000		\$330,000		\$330,000		\$330,000
Total Cost	\$1,343,125	\$480,000	\$265,875	\$370,000	\$265,875	\$370,000	\$265,875	\$370,000	\$265,875	\$370,000
N-year TCO					\$1,874,875	\$1,220,000			\$2,406,625	\$1,960,000
N-year % costs savings		64%				35%				19%

	Contact Center TCO 500 Agents, ACD +									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$1,042,500									
Implementation	\$1,322,813	\$168,750								
Maintenance and Upgrades			\$337,650	\$40,000	\$337,650	\$40,000	\$337,650	\$40,000	\$337,650	\$40,000
Subscription Costs		\$390,000		\$390,000		\$390,000		\$390,000		\$390,000
Total Cost	\$2,365,313	\$558,750	\$337,650	\$430,000	\$337,650	\$430,000	\$337,650	\$430,000	\$337,650	\$430,000
N-year TCO					\$3,040,613	\$1,418,750			\$3,715,913	\$2,278,750
N-year % costs savings		76%				53%				39%

	Contact Center TCO 500 Agents, Full Function									
	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Systems and Applications	\$2,564,250									
Implementation	\$5,180,288	\$828,563								
Maintenance and Upgrades			\$611,565	\$40,000	\$611,565	\$40,000	\$611,565	\$40,000	\$611,565	\$40,000
Subscription Costs		\$960,000		\$960,000		\$960,000		\$960,000		\$960,000
Total Cost	\$7,744,538	\$1,788,563	\$611,565	\$1,000,000	\$611,565	\$1,000,000	\$611,565	\$1,000,000	\$611,565	\$1,000,000
N-year TCO					\$8,967,668	\$3,788,563			\$10,190,798	\$5,788,563
N-year % costs savings		77%				58%				43%

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