DMG CONSULTING LLC

Contact Center Cloud vs. On-Premise: Analyzing the Costs

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Introduction

It's time to replace your existing premise-based contact center solution (automatic call distributor (ACD) or dialer). The current system is probably more than 8 years old and fully depreciated. It has served you well, but it's old and needs to be replaced, particularly because it has been "end of life-d" (EOL'ed) by the vendor, and maintenance costs are increasing at an alarming rate. In addition, it's likely that your current ACD does not integrate well with your existing customer relationship management (CRM) solution, nor does it have adaptive real-time intelligent routing functionality or a universal queue (UQ) to support email, chat or social media. In short, the current contact center solution is inflexible, prevents you from delivering the service expected by today's consumers, and is difficult and costly to maintain.

Based on DMG's worldwide benchmark study of cloud-based contact center applications, 62.4% of companies have already implemented cloud-based contact center solutions. Of those companies not yet using a cloud-based solution, another 45.6% are planning to implement one in the near term. The reason is because cloud-based contact center solutions have many advantages over premise-based offerings. They do not require a large up-front capital expenditure, easily scale up and down to meet business needs, come with ongoing upgrades at no additional cost and without disruption, and require substantially fewer internal resources to maintain and administer. Additionally, the new cloud-based contact center solutions are highly flexible, multi-tenant, hybrid environments that are easy to use and maintain. They often come with an excellent administrative environment and user interfaces, are designed to easily integrate with third-party applications (in-house or external) and support "big data" and analytics. These fully blended ACD/dialer solutions are highly efficient, virtualized, resilient and dependable. See Figure 1 for a comparison of cloud and on-premise acquisition approaches.

Figure 1: Benefits of Cloud-Based Contact Center Solutions

	Cloud	On-Premise
Acquisition	No capital expenditure	Substantial up-front capital expenditure
	Minimal start-up and professional services costs	Large installation and professional services fees
	No hardware costs/no ongoing depreciation charges	Need to reconfigure/change power sources/modify the data center
	Pay for what is used	Pay for what is bought, regardless of whether or not it is used
	Negotiable and flexible payment	One-time fees must be paid up-

Figure 1: Benefits of Cloud-Based Contact Center Solutions		
	Cloud	**On-Premise**
	options – monthly, quarterly, annual, etc.	front and depreciated over a 5-year period
	Predictable and sizeable monthly operating costs	No monthly capital investments unless purchasing an upgrade
	No maintenance fees	No monthly usage fees
Integrations	Many solutions come with a selection of pre-built integrations to third-party applications on the price list	Vendors have many partners, and often leave it to the partner to build and maintain third-party application integrations
	Solutions designed to support hybrid cloud/premise-based and cloud/cloud environments	Do not easily integrate with other contact center ACDs or dialers
	Solutions are open and come with APIs to facilitate new integrations	Older-generation technology
	Vendor fees for integrations are intentionally low	Vendors generate substantial fees from integrations
Upgrades	Basic upgrades included; new modules are typically paid for through add-ons to the basic monthly fee	If on the “right” maintenance program, basic upgrades are included; new functionality is incremental
	End users do not have to commit resources and time to the upgrade process, but need to retrain staff and modify processes	End users have to manage the upgrade process jointly with the vendor; end users need to retrain staff and modify processes
	Does not require new hardware	Hardware must be replaced every 3 - 5 years
Support/Maintenance	Standard support is included	Sizeable annual maintenance fees range from 18% to 24% of the purchase price
	Users can purchase blocks of time from contact center experts who are dedicated to their operating environment	Users can purchase professional services
	Cloud solutions are designed to be easy to use and maintain, which reduces end-user and vendor time and effort	Ease of use was not a major consideration when the systems were built

Source: DMG Consulting LLC, September 2014

Cloud vs. On-Premise Financial Comparison

The financial impact of purchasing a cloud-based contact center solution is substantially different from buying a traditional premise-based system. Figure 2 shows the cash flow analysis for the acquisition of a 250-seat, single-site, multi-channel contact center. This operating environment requires a sophisticated interactive voice response (IVR) solution that performs look-ups and uses computer telephony integration (CTI) for screen-pop. See Appendix A for the assumptions used for Figure 2.

Figure 2: Contact Center Cloud vs. On-Premise Cash Flow Analysis

	Year 0	Year 1	Year 2	Year 3	Year 4 [1]	Year 5
Cash flow from on-premise scenario:						
- One-time costs	$697,500	N/A	N/A	N/A	$30,000	N/A
- Ongoing costs	N/A	$336,750	$336,750	$336,750	336,750	$336,750
	$697,500	**$336,750**	**$336,750**	**$336,750**	**$366,750**	**$336,750**
Cash flow from cloud scenario:						
- One-time costs	$23,625	N/A	N/A	N/A	N/A	N/A
- Ongoing costs	N/A	$318,000	$318,000	$318,000	$318,000	$318,000
	$23,625	**$318,000**	**$318,000**	**$318,000**	**$318,000**	**$318,000**
Net savings from cloud vs. purchase	**$673,875**	**$18,750**	**$18,750**	**$18,750**	**$48,750**	**$18,750**
Cumulative savings from cloud vs. on-premise	**$673,875**	**$692,625**	**$711,375**	**$730,125**	**$778,875**	**$797,625**
Net present value (NPV) of savings [2]	**$760,530**					

Notes:

1. In Year 4 the company is expected to replace its six servers at a cost of $5k each.
2. The assumed cost of capital is 12%.

Source: DMG Consulting LLC, September 2014

This cash flow analysis shows that over a five-year period, the cumulative benefit of using a cloud-based contact center solution for this operating environment would be $797,625. Assuming a 12% cost of capital, the net present value (NPV) of this cash flow savings is $760,530.

Budgetary Impact of the Cloud vs. On-Premise Contact Center Acquisition

It's important to understand the annual cash flow and budget impact of acquiring a solution in the cloud versus a premise-based contact center system that requires a major up-front capital investment. Here is how it works: In the year the investment is made, which is referred to as Year Zero, a company purchasing a premise-based contact center solution must pay substantial acquisition and start-up costs, also referred to as a one-time investment, to buy the system and cover the cost of the implementation, integration, professional services and training, as well as travel expenses for the vendor's staff. In Years 1 through 3, the company has to pay for software and hardware maintenance, which is 22% of software and 20% of hardware. The company also needs to pay for the cost of the IT and business staff resources dedicated to maintaining the premise-based solution. DMG estimates this to be 2.5 full-time equivalents (FTEs), as most companies have a dedicated contact center resource who is likely backed up by another individual. In addition, the company needs resources to address the system database, security, networking, carrier services, and more. In addition, it's common to have a business-oriented resource to handle day-to-day system administration.

During Year 4 of this contact center implementation, it is likely that the six original servers will need to be replaced, even if the company does not do a formal software upgrade. (DMG's numbers are conservative and do not include the cost of any software upgrades, which could easily run between $25k and $85k.) In Year 5, the cost returns to the same level as in Year 3.

Cloud-based contact center investments typically do not require a capital outlay to pay for the hardware or software. It's common to pay out-of-pocket for the implementation, integrations, training, professional services and the vendor's travel expenses, if they come on-site. (Site visits are dependent upon the needs of the company.) But cloud vendors have a strong incentive to minimize these costs, as they are viewed as a barrier to getting the customer active and generating usage fees. Their business model depends more on generating usage fees than on making money from the installation.

In Figure 3, the company acquiring the cloud-based contact center solution pays $23,625 in one-time expenses for the implementation, integration, on-site training, professional services and travel expenses. In Year 1, the monthly usage fees for the 250 agents, plus the cost of ½ an internal resource to help administer the system, is $318,000. Since all maintenance and upgrades are included for the life of the system, the operating cost remains the same in all five years. This model assumes that the customer locks in their rate for a five-year period, so there are no rate increases.

What's not included in this analysis for either the on-premise or cloud acquisition models is new functionality and modules. If a vendor adds a totally new capability to their solution, odds are that they are going to charge an incremental fee for it regardless of whether it's an on-premise or cloud-based solution.

Figure 3: Contact Center Acquisition Outgoing Cash Flow Summary		
Year	**Cloud**	**On-Premise**
0	$23,625	$697,500
1	$318,000	$336,750
2	$318,000	$336,750
3	$318,000	$336,750
4	$318,000	$366,750
5	$318,000	$336,750

Source: DMG Consulting LLC, September 2014

Savings from Using Cloud-Based Solutions

Chief financial officers (CFOs) want to hold onto their cash as long as possible, which is why they generally prefer using cloud-based solutions. In essence, the cloud is a practical financing model that allows companies to avoid making large one-time cash expenditures, and puts the risk of financing the investment on the vendor and its books. When it comes to contact center solutions, a cloud deployment also typically reduces the need for in-house IT resources to support the application. However, companies considering a cloud-based contact center solution should appreciate that they will likely need to have someone on staff who can administer the system and manage the cloud-based provider, even if this is only a portion of their job.

Given the scenario in Figure 2, using a cloud-based solution that requires only one-half of a person to maintain it on an ongoing basis will save the company $673,875 in start-up costs during Year Zero. Additionally, this company will see a reduction in ongoing costs by a total of $123,750 over the next five years ($18,750/year for five years, plus $30,000 for the hardware refresh for servers in Year 4).

Final Thoughts

The cloud has changed the dynamics of the contact center infrastructure market. It has given companies many attractive new alternatives, as well as an appealing method for financing the purchase. Companies no longer have to assume the full risk when buying a new contact center solution. They can find a partner whose interests are aligned with their own to manage the hardware and software, freeing them to concentrate on running their core business instead of managing their contact center infrastructure.

Appendix: Supporting Financial Details for the Model

Figure 4 is an itemized comparison of the one-time cost assumptions used in Figure 2.

Figure 4: One-Time Costs		
	On-Premise	Cloud
Software licenses	$412,500	N/A
Servers	30,000	N/A
Installation, integration and training	195,000	19,875
IVR development	40,000	2,500
Professional services	20,000	1,250
	$697,500	**$23,625**

Source: DMG Consulting LLC, September 2014

Figure 5 is a table detailing the ongoing costs in Figure 2.

Figure 5: Annual Ongoing Costs		
	On-Premise	Cloud
Software maintenance	$90,750	N/A
Hardware maintenance	6,000	N/A
Monthly usage fees	N/A	270,000
In-house admin. & IT support staff	240,000	48,000
	$336,750	**$318,000**

Source: DMG Consulting LLC, September 2014

About Connect First

Connect First is a leading cloud contact center infrastructure provider that focuses on customer satisfaction and rock-solid reliability. Connect First's robust platform is designed and supported by a team of highly experienced engineers, architects and business analysts, and backed with award-winning, in-house customer support. Solutions include ACD, Predictive Dialing and Compliance Suite (TCPA and PCI), Call Tracking, IVR Studio, Real-Time Telemetry, Extensive Reporting and more. Through a consultative approach with each customer, Connect First solutions are customizable and flexible to meet the needs of a discerning customer base and designed to elevate your business. Visit our website at www.connectfirst.com or call 888-965-1588 for more information.

About DMG Consulting LLC

DMG Consulting LLC is a leading independent research, advisory and consulting firm specializing in contact centers, back-office and real-time analytics. DMG provides insight and strategic guidance and tactical advice to end users, vendors and the financial community. Each year, DMG devotes more than 10,000 hours to producing primary research on IT sectors, including workforce optimization (quality management/liability recording), speech analytics, workforce management, performance management, desktop analytics, surveying/voice of the customer, text analytics, cloud-based contact center infrastructure, dialing, interactive voice response systems and proactive customer care. Our actionable solutions are proven to deliver a lasting competitive advantage, and often pay for themselves in as little as three months. Learn more at www.dmgconsult.com.

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